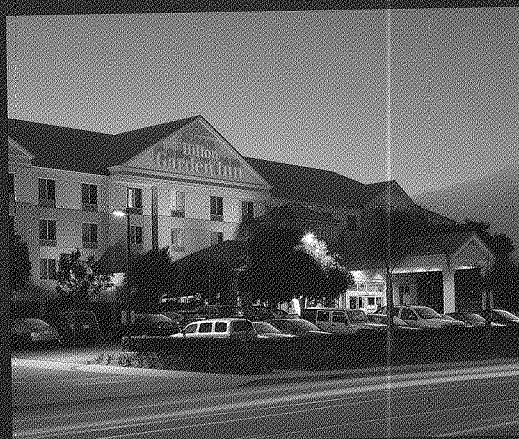




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APPLE REIT SIX *2011 Annual Report*





Apple REIT Six



HOMESWOOD SUITES, FORT WORTH, TX





## CORPORATE PROFILE

Apple REIT Six, Inc. is a real estate investment trust (REIT) focused on the ownership of hotels that generate attractive returns for our shareholders. Our hotels operate under the Courtyard® by Marriott®, Fairfield Inn® by Marriott®, Residence Inn® by Marriott®, SpringHill Suites® by Marriott®, TownePlace Suites® by Marriott®, Marriott® Hotels & Resorts, Homewood Suites by Hilton®, Hilton Garden Inn®, Hampton Inn® and Hampton Inn & Suites® brands. Our portfolio consists of 66 hotels, containing a total of 7,658 guestrooms in 18 states.



## MISSION

Apple REIT Six is a premier real estate investment company committed to providing maximum value for our shareholders.

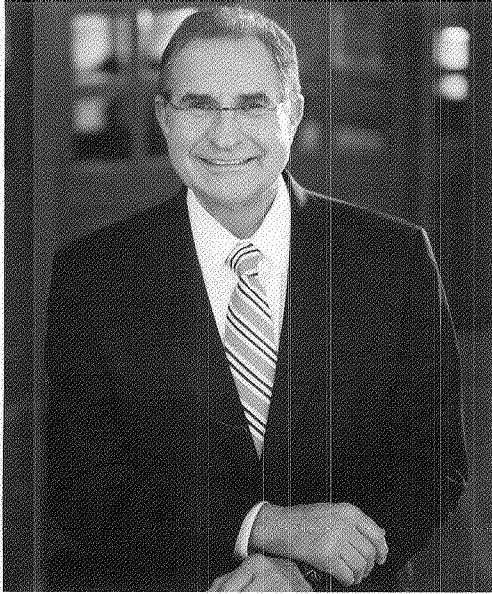
## Financial Highlights

(in thousands, except per share and statistical data)

Operating results for the years ended December 31,	2011	2010
TOTAL REVENUE	\$244,021	\$227,313
NET INCOME	\$45,161	\$34,384
FUNDS FROM OPERATIONS (A)	\$77,593	\$69,150
DISTRIBUTIONS PAID PER SHARE	\$.78	\$.79
WEIGHTED-AVERAGE SHARES OUTSTANDING	91,254	91,323
REVENUE PER AVAILABLE ROOM (RevPAR)	\$79	\$74

Balance sheet data as of December 31,	2011	2010
INVESTMENT IN REAL ESTATE, NET	\$746,354	\$764,557
TOTAL ASSETS	\$759,365	\$788,213
SHAREHOLDERS' EQUITY	\$690,628	\$719,771

(A) Funds from operations (FFO) is defined as net income (computed in accordance with generally accepted accounting principles—GAAP) excluding gains and losses from sales of depreciable property, plus depreciation and amortization and the loss on hotels held for sale. The company considers FFO in evaluating property acquisitions and its operating performance and believes that FFO should be considered along with, but not as an alternative to, net income and cash flows as a measure of the company's activities in accordance with GAAP. The Company considers FFO as a supplemental measure of operating performance in the real estate industry and along with other financial measures including net income, cash flow from operating activities, financing activities and investing activities, they provide investors with an indication of the performance of the Company. The Company's definition of FFO is not necessarily the same as such terms that are used by other companies. FFO is not necessarily indicative of cash available to fund cash needs.



DEAR SHAREHOLDER, Apple REIT Six, Inc. has maintained a conservative approach to the ownership of high-quality lodging real estate that is evident in the longstanding strength of our balance sheet, our ability to remain profitable during fluctuating real estate cycles and our portfolio of attractive hotels. Our commitment to the protection of shareholder assets and steady distributions has guided our strategic business decisions and I am pleased to report that 2011 was a year of solid progress

for the Company. In 2011, we achieved funds from operations (FFO) of \$0.85 per share, a 12 percent increase as compared to 2010. Additionally, in 2011, our hotels reported improvements in revenue per available room (RevPAR), we strategically allocated capital to the renovation of select hotels, we increased the annualized shareholder distribution rate from \$0.77 to \$0.792 per share, and we maintained one of the lowest debt levels in our industry, a ratio to total initial capitalization of approximately six percent. Hotel industry analysts have projected continued improvement across lodging fundamentals this year as demand for travel continues to outpace new supply and we believe our Company is well poised for continued progress as economic conditions and industry trends continue to strengthen.

The 66 Marriott® and Hilton®-branded hotels that comprise the Apple REIT Six portfolio, with 7,658 guestrooms, are diversified across 18 states and represent some of the strongest full-service, extended-stay and select-service brands in the industry. Economic conditions within the majority of our markets have improved over 2010 and for the year ending December 31, 2011, our hotels reported an average occupancy rate of 72 percent, an average daily rate (ADR) of \$110 and RevPAR of \$79. As compared to the same period of 2010, occupancy increased by one percent and ADR was up nearly six percent, driving an increase in RevPAR of approximately seven percent. Demand for travel has increased from both business and leisure travelers while the level of new supply has been low. This has produced improvements in occupancy and nightly rates. Given current market conditions, analysts are optimistic that a more complete recovery for the lodging industry is on the near horizon. Our asset management team will continue to aggressively work to increase RevPAR where areas of opportunity exist.

In 2011, Apple REIT Six achieved FFO of approximately \$77.6 million, or \$0.85 per share, an increase of 12 percent over FFO achieved in 2010 of \$69.2 million, or \$0.76 per share. As a direct result of strengthening operations at the majority of our hotels, our Board of Directors increased the annualized distribution rate from \$0.77 per share to \$0.792 per share, beginning with the Company's July 15, 2011 distribution payment. The annualized distribution rate is evaluated on an ongoing basis, taking into account varying economic cycles and the impact of current and anticipated hotel performance. Our goal is to maintain a relatively stable distribution rate over the life of our program with the understanding that at times, earnings may exceed or fall below our distributions. When distributions exceed earnings, we may use available credit to maintain the distribution rate and when earnings exceed distributions, we plan to reduce borrowings. Since the time of the Company's first distribution payment through the end of 2011, we have paid approximately \$523 million in distributions, or approximately \$6.57 per share to those who have been shareholders of the Company since the time of the initial closing. The Company has achieved since its beginning total FFO of approximately \$506 million and total net income of approximately \$314 million.<sup>1</sup>

Each year capital is strategically allocated to the renovation of select properties to elevate those hotels to the top of their market tier by integrating the innovative interiors and modern amenities for which the Marriott® and Hilton® brands are known. Historically, we have invested approximately \$77 million in the renovation of our hotels and in 2011, the Company allocated \$14 million to a variety of cost-effective property improvement projects as well as major renovations of the guestrooms and public spaces at our Homewood Suites by Hilton® in Nashville, TN, Hampton Inn® in Phoenix, AZ, Courtyard® by Marriott® in Pensacola, FL, SpringHill



Suites® by Marriott® in Arlington, TX, and Hampton Inn® in Lakewood, CO. Our team continually works to increase revenue by seeking to provide hotel guests the best possible lodging experience and as such, additional projects are underway or planned for 2012.

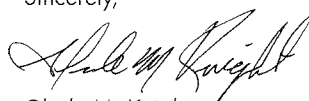
Our team at Apple REIT Six purposefully selected the non-traded public REIT structure to provide retail shareholders a long-term commercial real estate investment option with annual dividend income. Due to the nature of our structure, the program currently is closed to new investors, resulting in limited liquidity during the cycle of our REIT. In 2011, for the first time, the Company received a significant increase in the level of requests for the redemption of shares through our Unit Redemption Program. The Company's Unit Redemption Program is available to shareholders who may unexpectedly need access to their funds during the cycle of our REIT; however, the program is limited in the amount of redemptions it can provide based on the tender offer rules set forth by the Securities and Exchange Commission and the amount of cash the Company is able to allocate to redemptions. In general, the Company strives to match funds used for redemptions to the amount of proceeds from its Dividend Reinvestment Plan (DRIP). When requests for redemptions exceed these allocated assets, the Company will make distributions on a pro-rata basis, subject to guidelines as outlined in the Offering Prospectus or as otherwise adopted by our Board of Directors. As contemplated in the program, over the course of 2011, the Company paid a total of approximately \$30 million in redemption requests. Shareholder requests for redemptions were paid in full until the Company's July 20, 2011 payment, at which time we began making payments on a pro-rata basis. The Company's first redemption payment was made in 2005 and by the end of 2011 we had paid a total of \$182 million in the redemption of shares and raised approximately \$223 million through the DRIP and Additional Share Option Plan. At January 23, 2012, the most recent quarterly redemption date, a total of \$122 million in redemptions had been requested but not yet paid. Our goal in this approach is to minimize debt by spreading the redemptions over time and to maintain the long-term structure and integrity of the investment for all of our shareholders.

In November of 2010, our Board of Directors engaged the financial advisory assistance of Eastdil Secured of

Wells Fargo Securities, LLC, in the review of what strategic alternatives might be available that would provide a possibility of liquidity. At that time, conditions were not favorable enough to allow for a sale of the Company and in August of 2011, Eastdil began the evaluation of a potential consolidation transaction that would combine Apple REIT Six with Apple REIT Seven, Inc., Apple REIT Eight, Inc. and Apple REIT Nine, Inc. Such consolidation transaction could also include a listing of the stock of the combined enterprise for trading on a national exchange at the time of such combination or at a future date. The review includes, among other things, an evaluation of potential exchange ratios to effectuate such a combination, which could vary by company and may include ratios of less than one to one. A timetable for completion of the evaluation process has not been set. It is important to keep in mind that a transaction of this magnitude is complex, could take a substantial period of time to accomplish and may require shareholder approval. We will provide additional updates if our Board approves a specific transaction or otherwise deems further disclosure appropriate or required by law.

The year 2011 was unique for our Company. Amidst a variety of negative news articles on the non-traded REIT industry, an unsolicited and unreasonable tender offer, and class-action lawsuits, our team remained committed and focused on increasing shareholder value through the operation of our hotels and we saw solid improvements in our bottom line in 2011 as compared to 2010. The core business strategy of our Company has not wavered and our team remains committed to providing our shareholders maximum returns. We continue to own a portfolio of high-quality hotels with minimal debt at an important time of recovery within the hotel industry. As fundamentals across the hotel industry continue to strengthen, I believe Apple REIT Six has embarked on a year of sustained growth and I am more confident than ever in the long-term success of our program. As always, thank you for your investment in Apple REIT Six.

Sincerely,



Glade M. Knight

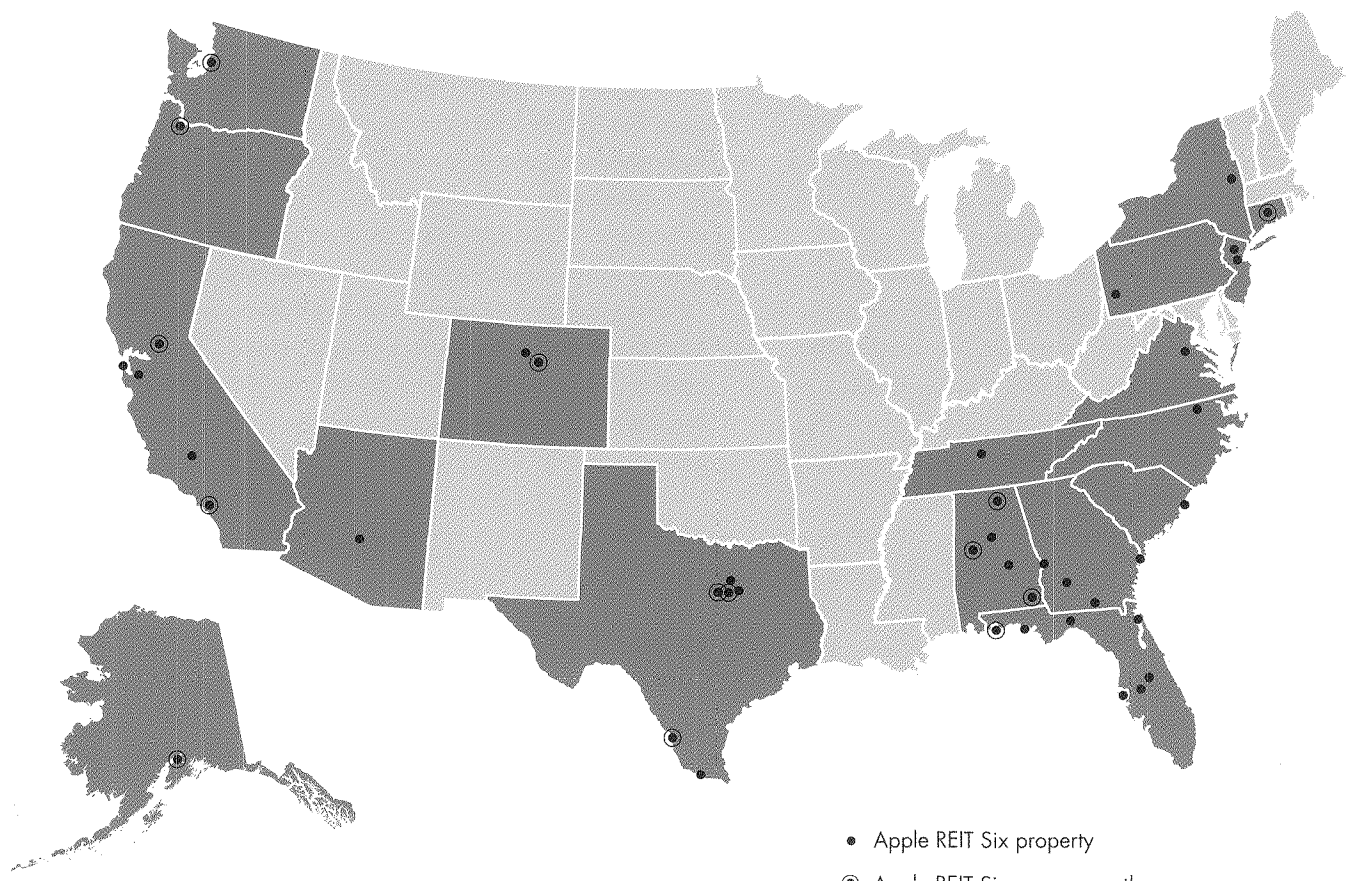
Chairman and Chief Executive Officer

<sup>1</sup> The difference in net income and FFO for the period from initial capitalization in 2004 through December 31, 2011, is depreciation of \$189 million and loss on hotels held for sale of approximately \$3 million.

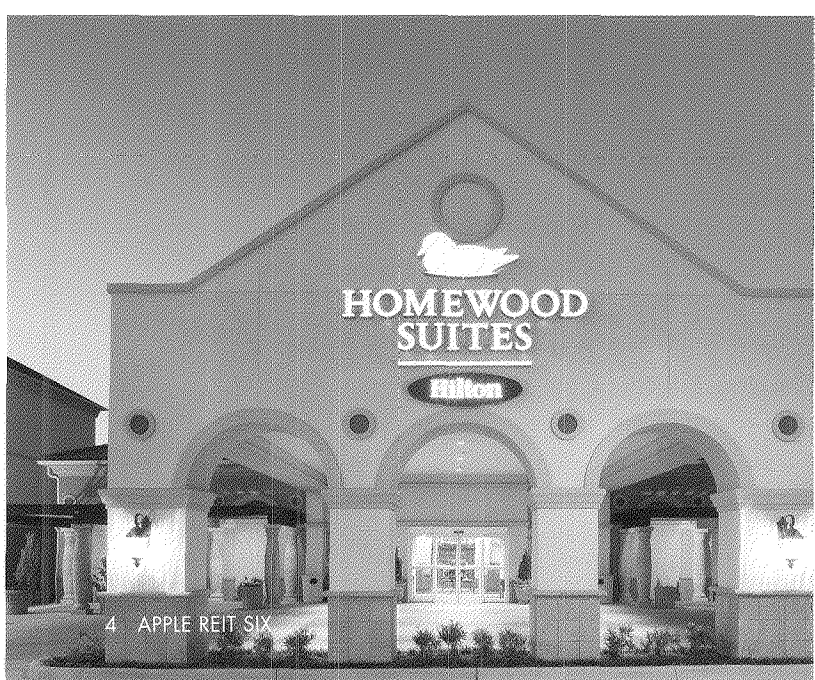


# Diversification

66 HOTELS, 7,658 GUESTROOMS



- Apple REIT Six property
- ◉ Apple REIT Six owns more than one property in this market





STATE/CITY	PROPERTY
<b>ALABAMA</b>	
Birmingham	Fairfield Inn
Dothan	Courtyard
Dothan	Hampton Inn & Suites
Huntsville	Fairfield Inn
Huntsville	Residence Inn
Montgomery	SpringHill Suites
Tuscaloosa	Courtyard
Tuscaloosa	Fairfield Inn
<b>ALASKA</b>	
Anchorage	Hampton Inn
Anchorage	Hilton Garden Inn
Anchorage	Homewood Suites
<b>ARIZONA</b>	
Phoenix	Hampton Inn
<b>CALIFORNIA</b>	
Arcadia	Hilton Garden Inn
Arcadia	SpringHill Suites
Bakersfield	Hilton Garden Inn
Folsom	Hilton Garden Inn
Foothill Ranch	Hampton Inn
Lake Forest	Hilton Garden Inn
Milpitas	Hilton Garden Inn
Roseville	Hilton Garden Inn
San Francisco	Hilton Garden Inn
<b>COLORADO</b>	
Boulder	Marriott
Denver/Glendale	Hampton Inn & Suites
Denver/Lakewood	Hampton Inn

STATE/CITY	PROPERTY
<b>CONNECTICUT</b>	
Farmington	Courtyard
Rocky Hill	Residence Inn
Wallingford	Homewood Suites
<b>FLORIDA</b>	
Clearwater	SpringHill Suites
Lakeland	Residence Inn
Orange Park	Fairfield Inn
Orlando/Lake Mary	Courtyard
Panama City	Courtyard
Pensacola	Courtyard
Pensacola	Fairfield Inn
Pensacola	Hampton Inn & Suites
Tallahassee	Hilton Garden Inn
<b>GEORGIA</b>	
Albany	Courtyard
Columbus	Residence Inn
Savannah	SpringHill Suites
Valdosta	Courtyard
<b>NEW JERSEY</b>	
Mt. Olive	Residence Inn
Somerset	Homewood Suites
<b>NEW YORK</b>	
Saratoga Springs	Hilton Garden Inn
<b>NORTH CAROLINA</b>	
Roanoke Rapids	Hilton Garden Inn

STATE/CITY	PROPERTY
<b>OREGON</b>	
Hillsboro	Courtyard
Hillsboro	Residence Inn
Hillsboro	TownePlace Suites
Portland	Residence Inn
<b>PENNSYLVANIA</b>	
Pittsburgh	Residence Inn
<b>SOUTH CAROLINA</b>	
Myrtle Beach	Courtyard
<b>TENNESSEE</b>	
Nashville	Homewood Suites
<b>TEXAS</b>	
Arlington	SpringHill Suites
Arlington	TownePlace Suites
Dallas	SpringHill Suites
Fort Worth	Homewood Suites
Fort Worth	Residence Inn
Fort Worth	SpringHill Suites
Laredo	Homewood Suites
Laredo	Residence Inn
Las Colinas	TownePlace Suites
McAllen	Hilton Garden Inn
<b>VIRGINIA</b>	
Fredericksburg	Hilton Garden Inn
<b>WASHINGTON</b>	
Kent	TownePlace Suites
Mukilteo	TownePlace Suites
Redmond	Marriott
Renton	Hilton Garden Inn



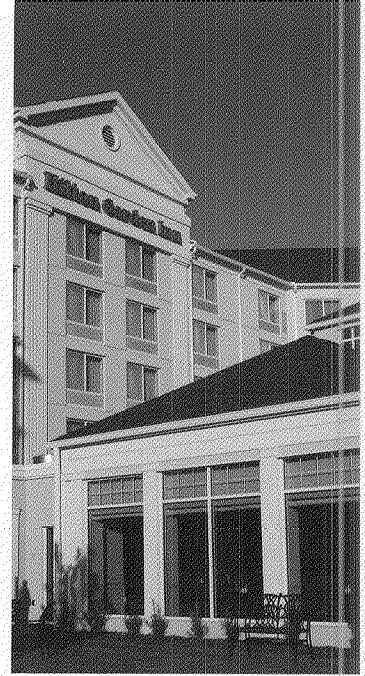
From left to right:

HOMESWOOD SUITES,  
LAREDO, TX

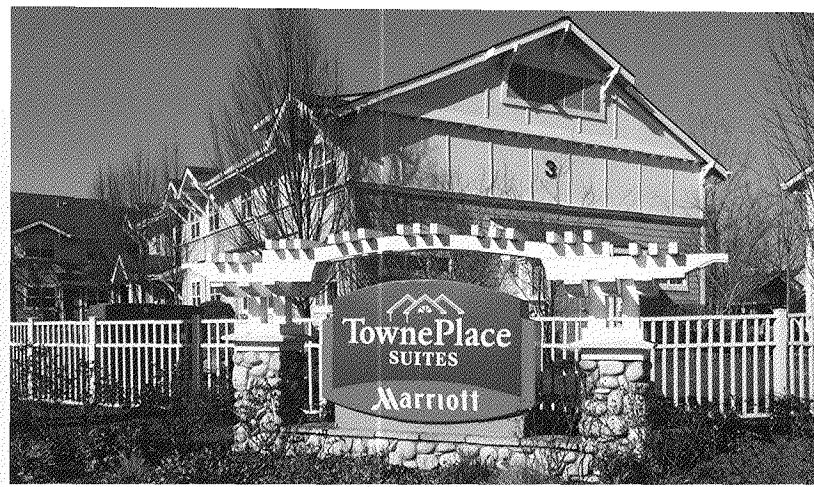
COURTYARD,  
VALDOSTA, GA

HAMPTON INN,  
FOOTHILL RANCH, CA









Clockwise from left: HILTON GARDEN INN, SARATOGA SPRINGS, NY; HILTON GARDEN INN, ROANOKE RAPIDS, NC; MARRIOTT, REDMOND, WA; TOWNEPLACE SUITES, HILLSBORO, OR; RESIDENCE INN, PORTLAND, OR





# Brand Strategy

The hotels within the Apple REIT Six portfolio are aligned with Marriott® and Hilton® and represent some of the leading brands in the hotel industry. These brands continue to excel within the industry and among guests and received numerous awards in 2011.

A sampling of 2011 awards:

- Marriott® was selected as the World's Most Admired Company in the Lodging Industry for the 12th year and one of the 100 Best Companies to Work For by *Fortune* magazine
- Marriott® was voted the Best in Sales and Service and the Best U.S. Hotel Chain by readers of *Travel Weekly*
- The Marriott® Rewards program was voted Best Hotel Loyalty Program by readers of *Business Traveler* magazine and About.com
- Hilton® was selected as the Best Business Hotel Chain in North America by *Business Traveler* magazine
- Homewood Suites by Hilton® received the highest ranking among extended-stay brands by J.D. Power and Associates in their 2011 North America Hotel Guest Satisfaction Index Study<sup>SM</sup>
- Hampton Inn® was selected as the number one franchise for 2012 by *Entrepreneur* magazine's Annual Franchise 500®



AS AN APPLE REIT  
SIX SHAREHOLDER,

we encourage you to stay informed, ask questions and know your investment. In addition to our correspondences and our website, [www.applereitsix.com](http://www.applereitsix.com), there are a number of resources available to you including our Prospectus and our filings with the Securities and Exchange Commission which can be found at [www.sec.gov](http://www.sec.gov).

HILTON GARDEN INN,  
FREDERICKSBURG, VA



**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-K**



☒ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the fiscal year ended December 31, 2011

or

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
Commission File Number 000-51270

**APPLE REIT SIX, INC.**

(Exact name of registrant as specified in its charter)

Virginia  
(State of Organization)

814 East Main Street  
Richmond, Virginia  
(Address of principal executive offices)

20-0620523  
(I.R.S. Employer Identification Number)

23219  
(Zip Code)

(804) 344-8121

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Units (Each Unit is equal to one common share, no par value and one Series A preferred share)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

Smaller reporting company ☐

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

There is currently no established public market in which the Company's common shares are traded. Based upon the price that Apple REIT Six, Inc.'s common equity last sold, which was \$11, on June 30, 2011, the aggregate market value of the voting common equity held by non-affiliates of the registrant on such date was \$1,006,569,000. The Company does not have any non-voting common equity.

Number of registrant's common shares outstanding as of March 1, 2012: 91,050,957

**Documents Incorporated by Reference**

The information required by Part III of this report, to the extent not set forth herein, is incorporated by reference from the registrant's definitive proxy statement for the annual meeting of shareholders to be held on May 17, 2012.

**APPLE REIT SIX, INC.**  
**FORM 10-K**  
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**Signatures**

This Form 10-K includes references to certain trademarks or service marks. The SpringHill Suites® by Marriott, TownePlace Suites® by Marriott, Fairfield Inn® by Marriott, Courtyard® by Marriott, Residence Inn® by Marriott and Marriott Suites® trademarks are the property of Marriott International, Inc. or one of its affiliates. The Homewood Suites® by Hilton, Hilton Garden Inn®, Hampton Inn® and Hampton Inn & Suites® trademarks are the property of Hilton Worldwide or one or more of its affiliates. For convenience, the applicable trademark or service mark symbol has been omitted but will be deemed to be included wherever the above referenced terms are used.



## PART I

This Annual Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are typically identified by use of terms such as “may,” “believe,” “expect,” “anticipate,” “intend,” “estimate,” “project,” “target,” “goal,” “plan,” “should,” “will,” “predict,” “potential,” and similar expressions that convey the uncertainty of future events or outcomes. Such statements involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance, or achievements of Apple REIT Six, Inc. (“the Company”) to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to, the ability of the Company to implement its acquisition strategy and operating strategy; the Company’s ability to manage planned growth; changes in economic cycles; the outcome of current and future litigation, regulatory proceedings or inquiries; and competition within the hotel industry. Although the Company believes that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate, and therefore there can be no assurance that such statements included in this Annual Report will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by the Company or any other person that the results or conditions described in such statements or the objectives and plans of the Company will be achieved. In addition, the Company’s qualification as a real estate investment trust involves the application of highly technical and complex provisions of the Internal Revenue Code. Readers should carefully review the Company’s financial statements and the notes thereto, as well as the risk factors described in the Company’s filings with the Securities and Exchange Commission and Item 1A in this report. Any forward-looking statement that the Company makes speaks only as of the date of this report. The Company undertakes no obligation to publicly update or revise any forward-looking statements or cautionary factors as a result of new information, future events or otherwise, except as required by law.

### **Item 1. Business**

The Company is a Virginia corporation that was formed in January 2004 to invest in income-producing real estate in the United States. Initial capitalization occurred on January 20, 2004 and operations began on May 28, 2004 when the Company acquired its first hotel. As of December 31, 2011, the Company owned 66 hotels operating in 18 states.

The Company is a real estate investment trust (“REIT”) which owns hotels in the United States. The Company has wholly-owned taxable REIT subsidiaries which lease all of the Company’s hotels from wholly-owned qualified REIT subsidiaries. The hotels are operated and managed by affiliates of Marriott International, Inc. (“Marriott”), Stonebridge Realty Advisors, Inc. (“Stonebridge”), Hilton Worldwide (“Hilton”), Western International (“Western”), Larry Blumberg & Associates (“LBA”), White Lodging Services Corporation (“White”), Inn Ventures, Inc. (“Inn Ventures”), and Newport Hospitality Group, Inc. (“Newport”) under separate hotel management agreements.

The Company has no foreign operations or assets and its operating structure includes only one segment. The consolidated financial statements include the accounts of the Company and its subsidiaries. All inter-company transactions and balances have been eliminated upon consolidation. Refer to Part II, Item 8 of this report, for the consolidated financial statements.

### *Website Access*

The address of the Company’s Internet website is [www.applereitsix.com](http://www.applereitsix.com). The Company makes available free of charge through its Internet website its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the SEC. Information contained on the Company’s website is not incorporated by reference into this report.

### *Business Objectives*

The Company's primary objective is to enhance shareholder value by increasing funds from operations and cash available for distributions through internal growth and selective hotel renovation. This strategy includes utilizing the Company's asset management expertise to improve the quality of the Company's hotels by aggressively managing room rates, partnering with industry leaders in hotel management and franchising the hotels with leading brands, thereby improving the performance of an individual hotel in its local market. When cost effective, the Company renovates its properties to increase its ability to compete in particular markets. The Company believes its planned renovations and strong asset management of its portfolio will continue to increase each hotel's performance in its individual market, although there can be no assurance of such results.

### *Financing*

The Company has five notes payable outstanding assumed in conjunction with the acquisition of hotels. These notes have maturity dates ranging from January 2013 to December 2014, and stated interest rates ranging from 6.4% to 6.93%. The Company also has a \$60 million unsecured credit facility with a commercial bank that is utilized for working capital, hotel renovations, and other general corporate funding purposes, including the payment of redemptions and distributions. The Company refinanced the credit facility in September 2011 with its existing lender. The outstanding principal balance of the credit facility was \$43.7 million at December 31, 2011, which matures on September 8, 2013 and may be prepaid without penalty. Interest payments are due monthly and the applicable interest rate is equal to the applicable LIBOR (the London Interbank Offered Rate) plus 3.5%. The LIBOR floor under the previous agreement was removed, therefore reducing the Company's effective interest rate. The effective interest rate for borrowings under the credit facility at December 31, 2011 was 3.82%. The credit facility also has an unused fee of 0.35% if the average outstanding quarterly balance is greater than \$30 million and 0.5% if the average outstanding quarterly balance is less than \$30 million. The Company anticipates that cash flow from operations and the credit facility will be adequate to meet its anticipated liquidity requirements, including debt service, capital improvements, required distributions to shareholders (the Company is not required to make distributions at its current rate for REIT purposes) and planned Unit redemptions. The Company intends to maintain a relatively stable distribution rate with varying economic cycles. If cash flow from operations and the credit facility are not adequate to meet liquidity requirements, the Company will attempt if necessary to utilize additional financing to achieve this objective. Although the Company has relatively low levels of debt, there can be no assurances it will be successful with this strategy and may need to reduce its distributions to required levels. If the Company were unable to extend its maturing debt in future periods or if it were to default on its debt it may be unable to make distributions or redemptions. The Company's bylaws require board approval and review of any debt financing obtained by the Company.

### *Industry and Competition*

The hotel industry is highly competitive. Each of the Company's hotels is located in a developed area that includes other hotels and competes for guests primarily with other hotels in the Company's immediate vicinity and secondarily with other hotels in the Company's geographic market. An increase in the number of competitive hotels in a particular area could have a material adverse effect on the occupancy, average daily rate ("ADR") and revenue per available room ("RevPAR") of the Company's hotels in that area. The Company believes that brand recognition, location, price and quality (of both the hotel and the services provided) are the principal competitive factors affecting the Company's hotels. Additionally, general economic conditions in a particular market and nationally impact the performance of the hotel industry.

### *Hotel Operating Performance*

As of December 31, 2011, the Company owned 66 hotels consisting of fourteen Hilton Garden Inn hotels, ten Residence Inn hotels, ten Courtyard hotels, seven SpringHill Suites hotels, six Homewood Suites hotels, five TownePlace Suites hotels, five Fairfield Inn hotels, four Hampton Inn hotels, three Hampton Inn & Suites hotels and two full service Marriott hotels. They are located in 18 states and, in aggregate, consist of 7,658 rooms. The Company sold two hotels located in Tempe, Arizona in June 2011. The results of operations of these two hotels are classified as discontinued operations.

Room revenue from continuing operations totaled \$220.2 million in 2011, and the hotels achieved average occupancy of 72%, ADR of \$110 and RevPAR of \$79, compared with \$206.6 million of room revenue, average



occupancy of 71%, ADR of \$104 and RevPAR of \$74 in 2010. Hotel performance is impacted by many factors including the economic conditions in the United States as well as each locality. During the period from the second half of 2008 through 2010, the overall weakness in the U.S. economy had a considerable negative impact on both consumer and business travel. As a result, revenue in most markets in the United States declined from levels of 2007 and the first half of 2008. However, economic conditions have shown evidence of improvement in 2011. Although the industry in general has revenue below pre-recession levels, during the past two years the industry and the Company have experienced an increase in demand, as shown by improved occupancy rates during this period. In addition, also signifying a stabilizing economy, the Company experienced an increase in ADR of 6% during 2011 as compared to the prior year. With continued improvement, in both demand and room rates the Company and industry are forecasting a mid single digit percentage increase in revenue for 2012 as compared to 2011. While reflecting the impact of post-recessionary levels of single-digit growth in national economic activity, the Company's hotels on average also continue to be leaders in their respective markets. The Company's average Market Yield was 121 in both 2011 and 2010. The Market Yield is a measure of each hotel's RevPAR compared to the average in the market, with 100 being the average (the index excludes hotels under renovation) and is provided by Smith Travel Research, Inc.<sup>®</sup>, an independent company that tracks historical hotel performance in most markets throughout the world. The Company will continue to pursue market opportunities to improve revenue. See the Company's complete financial statements in Item 8 of this report.

#### *Management and Franchise Agreements*

Each of the Company's 66 hotels are operated and managed, under separate management agreements, by affiliates of one of the following companies: Marriott, Stonebridge, Hilton, Western, LBA, White, Inn Ventures or Newport. The agreements have remaining terms ranging from 1 to 23 years. Fees associated with the agreements generally include the payment of base management fees, incentive management fees, accounting fees, and other fees for centralized services which are allocated among all of the hotels that receive the benefit of such services. Base management fees are calculated as a percentage of gross revenues. Incentive management fees are calculated as a percentage of operating profit in excess of a priority return to the Company, as defined in the management agreements. The Company has the option to terminate the management agreements if specified performance thresholds are not satisfied. During the years ended December 31, 2011, 2010 and 2009, the Company incurred approximately \$8.0 million, \$7.0 million and \$6.6 million in management fees for continuing operations.

Stonebridge, Western, LBA, White, Inn Ventures and Newport are not affiliated with either Marriott or Hilton, and as a result, the hotels managed by these companies were required to obtain separate franchise agreements with each respective franchisor. The Hilton franchise agreements generally provide for an initial term of 13 to 20 years. Fees associated with the Hilton agreements generally include the payment of royalty fees and program fees based on room revenues. The Marriott franchise agreements provide for an initial term of 15 to 20 years. Fees associated with the Marriott agreements include the payment of royalty fees, marketing fees, reservation fees and a communications support fee based on room revenues. During the years ended December 31, 2011, 2010 and 2009, the Company incurred approximately \$9.9 million, \$9.3 million and \$8.8 million in franchise fees for continuing operations.

The franchise and/or management agreements provide a variety of benefits for the Company, which include national advertising, publicity, and other marketing programs designed to increase brand awareness, training of personnel, continuous review of quality standards, centralized reservation systems and best practices within the industry.

#### *Maintenance and Renovation*

The hotels have an ongoing need for renovation and refurbishment. Under various hotel management agreements, the Company has agreed to fund expenditures for periodic repairs, replacement or refurbishment of furniture, fixtures and equipment for the hotels in an amount equal to a certain percentage of gross revenues. In addition, other capital improvement projects are directly funded by the Company. During 2011 and 2010 the Company spent approximately \$14.1 million and \$8.2 million on capital improvements.



### *Employees*

During 2011, all employees involved in the day-to-day operation of the Company's hotels were employed by third party management companies engaged pursuant to the hotel management agreements. At December 31, 2011, a subsidiary of the Company (Apple Fund Management, LLC) had 50 employees. These employees not only provide support to the Company, but as discussed below, they also provide support to various related parties.

### *Environmental Matters*

In connection with each of the Company's hotel acquisitions, the Company obtained a Phase I Environmental Report and additional environmental reports and surveys, as are necessitated by the preliminary report. Based on the reports, the Company is not aware of any environmental situations requiring remediation at the Company's properties, which have not been, or are not currently being remediated. No material remediation costs have occurred or are expected to occur. Under various laws, owners as well as tenants and operators of real estate may be required to investigate and clean up or remove hazardous substances present at or migrating from properties they own, lease or operate and may be held liable for property damage or personal injuries that result from hazardous substances. These laws also expose the Company to the possibility that it may become liable to reimburse governments for damages and costs they incur in connection with hazardous substances.

### *Seasonality*

The hotel industry historically has been seasonal in nature. Seasonal variations in occupancy at the Company's hotels may cause quarterly fluctuations in its revenues. To the extent that cash flow from operations is insufficient during any quarter, due to temporary or seasonal fluctuations in revenue, the Company expects to utilize cash on hand or available credit to make distributions.

### *Related Parties*

The Company has, and is expected to continue to engage in, significant transactions with related parties. These transactions cannot be construed to be at arm's length and the results of the Company's operations may be different if these transactions were conducted with non-related parties. The Company's independent members of the Board of Directors oversee and annually review the Company's related party relationships (which include the relationships discussed in this section) and are required to approve any significant modifications to the contracts, as well as any new significant related party transactions. There were no changes to the contracts discussed in this section and no new significant related party transactions during the year ended December 31, 2011. The Board of Directors is not required to approve each individual transaction that falls under the related party relationships. However, under the direction of the Board of Directors, at least one member of the Company's senior management team approves each related party transaction.

The Company has a contract with Apple Six Realty Group ("A6RG"), a related party, to provide brokerage services for the acquisition and disposition of the Company's real estate assets. In accordance with the contract, A6RG is paid a fee of 2% of the gross purchase price of any acquisitions or gross sale price of any dispositions of real estate investments, subject to certain conditions plus certain reimbursable costs. As of December 31, 2011, payments to A6RG for services under the terms of this contract have totaled \$16.9 million since inception which were capitalized as a part of the purchase price of the hotels. No fees were incurred during 2011, 2010 and 2009 under the contract.

The Company is party to an advisory agreement with Apple Six Advisors, Inc. ("A6A"), pursuant to which A6A provides management services to the Company. An annual fee ranging from 0.1% to 0.25% of total equity proceeds received by the Company, in addition to certain reimbursable expenses, are payable for these services. Total advisory fees incurred by the Company under the advisory agreement are included in general and administrative expenses and totaled \$1.5 million for each of the three years ended December 31, 2011, 2010 and 2009.

Through its wholly-owned subsidiary, Apple Fund Management, LLC ("AFM"), the Company provides support services to A6RG, Apple Suites Realty Group, Inc. ("ASRG"), A6A, Apple Seven Advisors, Inc. ("A7A"), Apple REIT Seven, Inc., Apple Eight Advisors, Inc. ("A8A"), Apple REIT Eight, Inc., Apple Nine Advisors, Inc. ("A9A"), Apple REIT Nine, Inc., Apple Ten Advisors, Inc. ("A10A") and Apple REIT Ten,

Inc. A7A provides day to day advisory and administrative functions for Apple REIT Seven, Inc. A8A provides day to day advisory and administrative functions for Apple REIT Eight, Inc. A9A provides day to day advisory and administrative functions for Apple REIT Nine, Inc. A10A provides day to day advisory and administrative functions for Apple REIT Ten, Inc. ASRG provides real estate brokerage services to Apple REIT Seven, Inc., Apple REIT Eight, Inc., Apple REIT Nine, Inc. and Apple REIT Ten, Inc. Each of these companies has agreed to reimburse the Company for its costs in providing these services. A6RG, ASRG, A6A, A7A, A8A, A9A and A10A are 100% owned by Glade Knight, the Company's Chairman and Chief Executive Officer. For the years ended December 31, 2011, 2010 and 2009, the Company received reimbursement of its costs totaling \$7.2 million, \$6.1 million and \$5.9 million from the participating entities. The Company's net allocated cost for these support services was approximately \$1.5 million, \$1.7 million and \$1.9 million for the years ended December 31, 2011, 2010 and 2009. As part of this arrangement, the day to day transactions may result in amounts due to or from the noted related parties. To effectively manage cash disbursements, the individual companies may make payments for any or all of the related companies. The amounts due to or from the related companies are reimbursed or collected and are not significant in amount.

Although there is a potential conflict on time allocation of personnel due to the fact that a senior manager, officer or staff member will provide services to more than one company, the Company believes that the executives and staff compensation sharing arrangement allows the companies to share costs yet attract and retain superior executives and staff. The cost sharing structure also allows each entity to maintain a much more cost effective structure than having separate staffing arrangements. Amounts reimbursed to the Company include both compensation for personnel and "overhead" (office rent, utilities, benefits, office supplies, etc.) utilized by the companies. AFM receives its direction for staffing and compensation from the advisory companies (A6A, A7A, A8A, A9A, A10A, ASRG, and A6RG) each of which is wholly owned by Glade M. Knight. Since the employees of AFM may also perform services for the advisors, individuals, including executive officers, have received and may receive consideration directly from the advisors. The allocation of costs is made by the management of the several REITs and is reviewed at least annually by the Compensation Committees of the several REITs. In making the allocation, management and the Compensation Committee consider all relevant facts related to the Company's level of business activity and the extent to which the Company requires the services of particular personnel. The costs allocated are actual costs and do not include any profit/markup for the Company. Such payments are not based on formal record keeping regarding the time these personnel devote to the Company, but are based on a good faith estimate by the employee and/or his or her supervisor of the time devoted by the employee to each Company.

Including A6RG, ASRG, A6A, A7A, A8A, A9A and A10A discussed above, Mr. Knight is also Chairman and Chief Executive Officer of Apple REIT Seven, Inc., Apple REIT Eight, Inc., Apple REIT Nine, Inc. and Apple REIT Ten, Inc. Members of the Company's Board of Directors are also on the boards of Apple REIT Seven, Inc., Apple REIT Eight, Inc. and Apple REIT Nine, Inc.

Included in other assets, net on the Company's consolidated balance sheet, is a 26% equity investment in Apple Air Holding, LLC ("Apple Air"). The other members of Apple Air are Apple REIT Seven, Inc., Apple REIT Eight, Inc. and Apple REIT Nine, Inc. Through its equity investment the Company has access to Apple Air's aircraft for asset management and renovation purposes. The Company's equity investment in Apple Air was approximately \$1.7 million and \$1.8 million at December 31, 2011 and 2010, respectively. The Company has recorded its share of income or losses of the entity under the equity method of accounting and adjusted its investment in Apple Air accordingly. For the years ended December 31, 2011 and 2010, the Company recorded a loss of approximately \$0.2 million and \$0.9 million as its share of the net loss of Apple Air, which primarily relates to the depreciation of the aircraft and the reduction in basis of the aircraft in 2010 due to the planned trade in for one new airplane in 2011, and is included in general and administrative expense in the Company's consolidated statements of operations. Apple Air owned two aircraft during 2010, but reduced its ownership to one aircraft during the first quarter of 2011.

The Company has incurred legal fees associated with the Legal Proceedings and Related Matters discussed herein. The Company also incurs other professional fees such as accounting, auditing and reporting. These fees are included in general and administrative expense in the Company's consolidated statements of operations. To be cost effective, these services received by the Company are shared as applicable across the other Apple REIT Companies (Apple REIT Seven, Inc., Apple REIT Eight, Inc., Apple REIT Nine, Inc., and Apple REIT Ten, Inc.). The professionals cannot always specifically identify their fees for one company therefore management allocates these costs across the companies that benefit from the services.



## **Item 1A. Risk Factors**

The following describes several risk factors which are applicable to the Company. There are many factors that may affect the Company's business and results of operations. You should carefully consider, in addition to the other information contained in this report, the risks described below.

### *Hotel Operations*

The Company's hotels are subject to all of the risks common to the hotel industry. These risks could adversely affect hotel occupancy and the rates that can be charged for hotel rooms as well as hotel operating expenses, and generally include:

- increases in supply of hotel rooms that exceed increases in demand;
- increases in energy costs and other travel expenses that reduce business and leisure travel;
- reduced business and leisure travel due to continued geo-political uncertainty, including terrorism;
- adverse effects of declines in general and local economic activity; and
- adverse effects of a downturn in the hotel industry.

### *General Local and National Economic Conditions*

Changes in general local or national economic or market conditions, increased costs of energy, increased costs of insurance, increased costs of products, increased costs and shortages of labor, competitive factors, fuel shortages, quality of management, the ability of a hotel chain to fulfill any obligations to operators of its hotel business, limited alternative uses for the building, changing consumer habits, condemnation or uninsured losses, changing demographics, changing traffic patterns, inability to remodel outmoded buildings as required by the franchise or lease agreement and other factors beyond the Company's control may reduce operating results and the value of properties that the Company owns. Additionally, these items, among others, may reduce the availability of capital to the Company. As a result, cash available to make distributions to shareholders may be affected.

### *Current General Economic Environment in the Lodging Industry*

The United States continues to be in a post-recessionary low-growth environment, which has experienced historically high levels of unemployment. Uncertainty over the depth and duration of this economic environment continues to have a negative impact on the lodging industry. There is some general consensus among economists that the economy in the United States emerged from a recessionary environment in 2009, but high unemployment levels and sluggish business and consumer travel trends were evident in both 2010 and 2011. As a result, the Company and the industry continue to experience reduced revenue as compared to pre-recessionary periods. Accordingly, the Company's financial results have been impacted by the economic environment, and future financial results and growth could be further harmed until a more expansive national economic environment is prevalent. A weaker than anticipated economic recovery, or a return to a recessionary national economic environment, could result in low or decreased levels of business and consumer travel, negatively impacting the lodging industry. Such an economic outcome could also negatively impact the Company's future growth prospects and results of operations.

### *Hospitality Industry*

The success of the Company's properties will depend largely on the property operators' ability to adapt to dominant trends in the hotel industry as well as greater competitive pressures, increased consolidation, industry overbuilding, dependence on consumer spending patterns and changing demographics, the introduction of new concepts and products, availability of labor, price levels and general economic conditions. The success of a particular hotel brand, the ability of a hotel brand to fulfill any obligations to operators of its business, and trends in the hotel industry may affect the Company's income and the funds it has available to distribute to shareholders.

The hospitality industry could also experience a significant decline in occupancy and average daily rates due to a reduction in both business and leisure travel. General economic conditions, increased fuel costs, natural disasters and terrorist attacks are a few factors that could affect an individual's willingness to travel. The Company's property insurance will typically cover losses for property damage due to terrorist attacks or

natural disasters (subject to policy deductibles). However, the Company is not insured against the potential negative effect a terrorist attack or natural disaster would have on the hospitality industry as a whole.

#### *Seasonality*

The hotel industry is seasonal in nature. Generally, occupancy rates and hotel revenues are greater in the second and third quarters than in the first and fourth quarters. As a result, there may be quarterly fluctuations in results of operations and the Company may need to enter into short-term borrowing in certain periods in order to offset these fluctuations in revenues and to make distributions to shareholders.

#### *Franchise Agreements*

The Company's wholly-owned taxable REIT subsidiaries operate all of the properties pursuant to franchise or license agreements with nationally recognized hotel brands. These agreements contain specific standards for, and restrictions and limitations on, the operation and maintenance of the Company's properties in order to maintain uniformity within the franchisor system. These standards could potentially conflict with the Company's ability to create specific business plans tailored to each property and to each market.

#### *Competition*

The hotel industry is highly competitive. Each of the Company's hotels is located in a developed area that includes other hotels and competes for guests primarily with other hotels in the Company's immediate vicinity and secondarily with other hotels in the Company's geographic market. An increase in the number of competitive hotels in a particular area could have a material adverse effect on the occupancy, average daily rate and revenue per available room of the Company's hotels in that area.

#### *Transferability of Shares*

There is and will be no public trading market for the common shares and the Series A preferred shares for an indefinite period of time, if ever. Therefore, the Units are and will be highly illiquid and very difficult to trade. In addition, there are restrictions on the transfer of the common shares. In order to qualify as a REIT, the shares must be beneficially owned by 100 or more persons and no more than 50% of the value of the Company's issued and outstanding shares may be owned directly or indirectly by five or fewer individuals. Therefore, the Company's bylaws provide that no person may own more than 9.8% of the issued and outstanding Units. Any purported transfer of our shares that would result in a violation of either of these limits will be declared null and void.

#### *Qualification as a REIT*

The rules governing a REIT are highly technical and complex. They require ongoing compliance with and interpretation of a variety of tests and regulations that depend on, among other things, future operations. While the Company expects to satisfy these tests, it cannot ensure it will qualify as a REIT for any particular year. There is also the risk that the applicable laws governing a REIT could be changed, which could adversely affect the Company and its shareholders.

#### *Distributions to Shareholders*

If the Company's properties do not generate sufficient revenue to meet operating expenses, the Company's cash flow and the Company's ability to make distributions to shareholders may be adversely affected. The Company is subject to all operating risks common to hotels. These risks might adversely affect occupancy or room rates. Increases in operating costs due to inflation and other factors may not necessarily be offset by increased room rates. The local, regional and national hotel markets may limit the extent to which room rates may be increased to meet increased operating expenses without decreasing occupancy rates. While the Company intends to make monthly distributions to shareholders, there can be no assurance that the Company will be able to make distributions at any particular time or rate, or at all. Further, there is no assurance that a distribution rate achieved for a particular period will be maintained in the future. Also, while management may establish goals as to particular rates of distribution or have an intention to make distributions at a particular rate, there can be no assurance that such goals or intentions will be realized.

The Company's objective in setting a distribution rate is to project a rate that will provide consistency over the life of the Company, taking into account acquisitions and capital improvements, ramp up of new



properties and varying economic cycles. The Company anticipates that it may need to utilize debt, offering proceeds and cash from operations to meet this objective. The Company evaluates the distribution rate on an ongoing basis and may make changes at any time if the Company feels the rate is not appropriate based on available cash resources.

While the Company generally seeks to make distributions from its operating cash flows, distributions may be made (although there is no obligation to do so) in certain circumstances in part from financing proceeds or other sources, such as proceeds from the offering of Units. While distributions from such sources would result in the shareholder receiving cash, the consequences to the shareholder would differ from a distribution from operating cash flows. For example, if financing is the source of a distribution, that financing would have to be repaid, and if proceeds from the offering of Units are distributed, those proceeds would not then be available for other uses (such as property acquisitions or improvements).

#### *Financing Risks*

Although the Company anticipates maintaining low levels of debt, it may periodically use short-term financing to perform renovations to its properties, make shareholder distributions or planned Unit redemptions in periods of fluctuating income from its properties. The debt markets have been volatile and subject to increased regulation and, as a result, the Company may not be able to use debt to meet its cash requirements.

#### *Securities Class Action Lawsuits and Governmental Regulatory Oversight Risks*

As a result of regulatory inquiries or other regulatory actions, or as a result of being publicly held, the Company may become subject to lawsuits. A subsidiary of the Company is currently subject to one securities class action lawsuit and other suits may be filed against the Company in the future. Due to the preliminary status of the lawsuit and uncertainties related to litigation, the Company is unable at this time to evaluate the likelihood of either a favorable or unfavorable outcome or to estimate the range of potential exposure. If the outcome is unfavorable, the Company may be required to pay damages and/or change its business practices, any of which could have a material adverse effect on the Company's financial condition, results of operations and cash flows. The ability of the Company to access capital markets, including commercial debt markets, could be negatively impacted by unfavorable, or the possibility of unfavorable, outcomes to lawsuits or adverse regulatory actions.

The Company has been and may continue to be subject to regulatory inquiries, which have resulted in and which could continue to result in costs and personnel time commitment to respond. It may also be subject to action by governing regulatory agencies, as a result of its activities, which could result in costs to respond and fines or changes in the Company's business practices, any of which could have a material adverse effect on the financial condition, results of operations, liquidity and capital resources, and cash flows of the Company.

*Technology is used in operations, and any material failure, inadequacy, interruption or security failure of that technology could harm the business.*

The Company and its hotel managers and franchisors rely on information technology networks and systems, including the Internet, to process, transmit and store electronic information, and to manage or support a variety of business processes, including financial transactions and records, personal identifying information, reservations, billing and operating data. Some of the information technology is purchased from vendors, on whom the systems depend. The Company and its hotel managers and franchisors rely on commercially available and internally developed systems, software, tools and monitoring to provide security for processing, transmission and storage of confidential operator and other customer information, such as individually identifiable information, including information relating to financial accounts. Although the Company and its hotel managers and franchisors have taken steps necessary to protect the security of their information systems and the data maintained in those systems, it is possible that the safety and security measures taken will not be able to prevent the systems' improper functioning or damage, or the improper access or disclosure of personally identifiable information such as in the event of cyber attacks. Security breaches, including physical or electronic break-ins, computer viruses, attacks by hackers and similar breaches, can create system disruptions, shutdowns or unauthorized disclosure of confidential information. Any failure to maintain proper function, security and availability of information systems could interrupt operations, damage reputation, subject us to liability claims or regulatory penalties and could have a material adverse effect on the business, financial condition and results of operations of the Company.

**Item 1B. Unresolved Staff Comments**

Not applicable.

**Item 2. Properties**

As of December 31, 2011, the Company owned 66 hotels located in 18 states with an aggregate of 7,658 rooms consisting of the following:

<u>Brand</u>	<u>Total by Brand</u>	<u>Number of Rooms</u>
Hilton Garden Inn .....	14	1,793
Residence Inn .....	10	1,247
Courtyard .....	10	993
SpringHill Suites .....	7	738
Homewood Suites .....	6	713
TownePlace Suites .....	5	647
Fairfield Inn .....	5	351
Hampton Inn .....	4	454
Hampton Inn & Suites .....	3	303
Marriott .....	<u>2</u>	<u>419</u>
Total .....	<u>66</u>	<u>7,658</u>

The following table includes the location of each hotel, the date of construction, the date acquired, encumbrances (if any), initial acquisition cost, gross carrying value and the number of rooms of each hotel.



**REAL ESTATE AND ACCUMULATED DEPRECIATION**  
**As of December 31, 2011**  
(dollars in thousands)

City	State	Brand	Encumbrances	Initial Cost		Subsequently Capitalized		Total Gross Cost	Acc Deprec	Date of Construction	Date Acquired	Depreciable Life	# of Rooms
				Land <sup>(a)</sup>	Bldg/ FF&E/Other	Bldg Imp. & FF&E							
Birmingham	Alabama	Fairfield Inn	\$ —	\$ 347	\$ 2,064	\$ 291	\$ 2,702	\$ (506)	1995	Aug-05	3 - 39 yrs.	63	
Dothan	Alabama	Courtyard	—	1,262	7,150	1,371	9,783	(1,935)	1996	Aug-05	3 - 39 yrs.	78	
Dothan	Alabama	Hampton Inn & Suites	—	837	8,134	203	9,174	(1,867)	2004	Jun-05	3 - 39 yrs.	85	
Huntsville	Alabama	Fairfield Inn	2,605	502	4,817	296	5,615	(962)	1999	Sep-05	3 - 39 yrs.	79	
Huntsville	Alabama	Residence Inn	—	941	7,638	1,558	10,137	(2,128)	2002	Jun-05	3 - 39 yrs.	78	
Montgomery	Alabama	SpringHill Suites	3,256	956	6,334	301	7,591	(1,238)	1998	Sep-05	3 - 39 yrs.	79	
Tuscaloosa	Alabama	Courtyard	—	—	7,953	1,431	9,384	(1,907)	1996	Aug-05	3 - 39 yrs.	78	
Tuscaloosa	Alabama	Fairfield Inn	—	—	4,240	302	4,542	(876)	1996	Aug-05	3 - 39 yrs.	63	
Anchorage	Alaska	Hampton Inn	—	1,216	10,505	2,553	14,274	(3,437)	1997	Mar-05	3 - 39 yrs.	101	
Anchorage	Alaska	Hilton Garden Inn	—	4,217	14,801	1,910	20,928	(4,030)	2002	Oct-04	3 - 39 yrs.	125	
Anchorage	Alaska	Homewood Suites	—	1,797	11,052	842	13,691	(2,860)	2004	Oct-04	3 - 39 yrs.	122	
Phoenix	Arizona	Hampton Inn	—	1,417	5,213	2,050	8,680	(1,817)	1998	Oct-04	3 - 39 yrs.	99	
Arcadia	California	Hilton Garden Inn	—	1,716	10,197	2,398	14,311	(3,590)	1999	Oct-04	3 - 39 yrs.	124	
Arcadia	California	SpringHill Suites	—	1,623	6,469	937	9,029	(2,033)	1999	Oct-04	3 - 39 yrs.	86	
Bakersfield	California	Hilton Garden Inn	—	1,159	10,572	313	12,044	(2,658)	2004	Mar-05	3 - 39 yrs.	120	
Folsom	California	Hilton Garden Inn	—	1,516	16,994	1,415	19,925	(3,815)	1999	Nov-05	3 - 39 yrs.	100	
Foothill Ranch	California	Hampton Inn	—	1,051	6,504	1,017	8,572	(1,933)	1998	Apr-05	3 - 39 yrs.	84	
Lake Forest	California	Hilton Garden Inn	—	1,533	9,433	356	11,322	(2,492)	2004	Oct-04	3 - 39 yrs.	103	
Milpitas	California	Hilton Garden Inn	—	2,555	16,544	2,192	21,291	(4,387)	1999	Nov-05	3 - 39 yrs.	161	
Roseville	California	Hilton Garden Inn	—	2,355	18,944	1,840	23,139	(4,486)	1999	Nov-05	3 - 39 yrs.	131	
San Francisco	California	Hilton Garden Inn	—	1,994	9,558	2,309	13,861	(3,361)	1999	Jan-06	3 - 39 yrs.	169	
Boulder	Colorado	Marriott	—	3,058	27,833	2,442	33,333	(6,896)	1997	May-05	3 - 39 yrs.	157	
Glendale	Colorado	Hampton Inn & Suites	4,929	3,627	11,235	1,465	16,327	(3,268)	1999	Oct-04	3 - 39 yrs.	133	
Lakewood	Colorado	Hampton Inn	—	2,490	8,108	2,527	13,125	(2,587)	2003	Oct-04	3 - 39 yrs.	170	
Farmington	Connecticut	Courtyard	—	1,792	15,436	139	17,367	(3,056)	2005	Oct-05	3 - 39 yrs.	119	
Rocky Hill	Connecticut	Residence Inn	—	1,469	11,287	137	12,893	(2,321)	2005	Aug-05	3 - 39 yrs.	96	
Wallingford	Connecticut	Homewood Suites	—	1,412	12,079	310	13,801	(2,615)	2005	Jul-05	3 - 39 yrs.	104	
Clearwater	Florida	SpringHill Suites	—	—	7,214	66	7,280	(1,476)	2006	Feb-06	3 - 39 yrs.	79	
Lake Mary	Florida	Courtyard	—	685	5,573	2,490	8,748	(2,160)	1995	Mar-05	3 - 39 yrs.	86	
Lakeland	Florida	Residence Inn	—	1,512	8,707	1,417	11,636	(2,362)	2001	Jun-05	3 - 39 yrs.	78	
Orange Park	Florida	Fairfield Inn	—	850	6,984	283	8,117	(1,281)	1998	Nov-05	3 - 39 yrs.	83	
Panama City	Florida	Courtyard	—	1,399	8,225	120	9,744	(1,681)	2006	Mar-06	3 - 39 yrs.	84	
Pensacola	Florida	Courtyard	—	1,181	10,733	1,766	13,680	(2,309)	1997	Aug-05	3 - 39 yrs.	90	
Pensacola	Florida	Fairfield Inn	—	467	4,706	300	5,473	(953)	1995	Aug-05	3 - 39 yrs.	63	
Pensacola	Florida	Hampton Inn & Suites	—	1,241	8,361	126	9,728	(1,919)	2005	Jul-05	3 - 39 yrs.	85	
Tallahassee	Florida	Hilton Garden Inn	—	1,096	10,137	1,147	12,380	(2,531)	1997	Mar-05	3 - 39 yrs.	99	
Albany	Georgia	Courtyard	—	1,246	7,665	191	9,102	(1,765)	2004	Jun-05	3 - 39 yrs.	84	
Columbus	Georgia	Residence Inn	—	—	8,184	222	8,406	(1,768)	2003	Jun-05	3 - 39 yrs.	78	
Savannah	Georgia	SpringHill Suites	2,638	687	5,105	300	6,092	(1,020)	1999	Sep-05	3 - 39 yrs.	79	
Valdosta	Georgia	Courtyard	—	1,030	7,535	1,248	9,813	(1,879)	2002	Oct-05	3 - 39 yrs.	84	
Mt. Olive	New Jersey	Residence Inn	—	1,407	11,334	288	13,029	(2,443)	2005	Sep-05	3 - 39 yrs.	123	
Somerset	New Jersey	Homewood Suites	—	1,807	16,807	398	19,012	(3,450)	2005	Aug-05	3 - 39 yrs.	123	
Saratoga Springs	New York	Hilton Garden Inn	—	2,391	15,893	1,630	19,914	(3,558)	1999	Sep-05	3 - 39 yrs.	112	
Roanoke Rapids	North Carolina	Hilton Garden Inn	—	2,457	15,714	35	18,206	(2,157)	2008	Mar-08	3 - 39 yrs.	147	
Hillsboro	Oregon	Courtyard	5,877	1,869	9,494	2,454	13,817	(2,360)	1996	Mar-06	3 - 39 yrs.	155	
Hillsboro	Oregon	Residence Inn	—	2,656	13,304	479	16,439	(2,750)	1994	Mar-06	3 - 39 yrs.	122	
Hillsboro	Oregon	TownePlace Suites	—	2,140	9,725	1,343	13,208	(2,610)	1999	Dec-05	3 - 39 yrs.	136	
Portland	Oregon	Residence Inn	—	4,390	38,697	3,590	46,677	(8,652)	2001	Dec-05	3 - 39 yrs.	258	
Pittsburgh	Pennsylvania	Residence Inn	—	1,155	10,273	1,950	13,378	(2,969)	1998	Sep-05	3 - 39 yrs.	156	
Myrtle Beach	South Carolina	Courtyard	—	1,857	7,631	1,337	10,825	(2,601)	1999	Jun-04	3 - 39 yrs.	135	
Nashville	Tennessee	Homewood Suites	—	1,170	7,177	1,788	10,135	(2,055)	1999	May-05	3 - 39 yrs.	121	
Arlington	Texas	SpringHill Suites	—	1,114	6,657	1,358	9,129	(1,749)	1998	Jun-05	3 - 39 yrs.	122	
Arlington	Texas	TownePlace Suites	—	1,027	6,379	316	7,722	(1,488)	1999	Jun-05	3 - 39 yrs.	95	
Dallas	Texas	SpringHill Suites	—	1,367	18,742	641	20,750	(4,051)	1997	Dec-05	3 - 39 yrs.	148	
Fort Worth	Texas	Homewood Suites	—	1,152	8,210	2,517	11,879	(2,902)	1999	May-05	3 - 39 yrs.	137	
Fort Worth	Texas	Residence Inn	—	1,873	15,586	208	17,667	(3,407)	2005	May-05	3 - 39 yrs.	149	
Ft. Worth	Texas	SpringHill Suites	—	2,125	11,619	198	13,942	(2,852)	2004	May-04	3 - 39 yrs.	145	
Laredo	Texas	Homewood Suites	—	1,112	9,787	255	11,154	(2,130)	2005	Nov-05	3 - 39 yrs.	106	

**REAL ESTATE AND ACCUMULATED DEPRECIATION**  
**As of December 31, 2011**  
(dollars in thousands)

City	State	Brand	Encumbrances	Initial Cost		Subsequently Capitalized	Total Gross Cost	Acc Deprec	Date of Construction	Date Acquired	Depreciable Life	# of Rooms
				Land <sup>(1)</sup>	Bldg./FF&E/Other	Bldg Imp. & FF&E						
Laredo	Texas	Residence Inn	\$ —	\$ 898	\$ 10,973	\$ 165	\$ 12,036	\$ (2,365)	2005	Sep-05	3 - 39 yrs.	109
Las Colinas	Texas	TownePlace Suites	—	1,195	6,266	354	7,815	(1,627)	1998	Jun-05	3 - 39 yrs.	136
McAllen	Texas	Hilton Garden Inn	—	1,170	8,151	1,685	11,006	(2,432)	2000	Jul-05	3 - 39 yrs.	104
Fredericksburg	Virginia	Hilton Garden Inn	—	1,821	15,363	299	17,483	(3,208)	2005	Dec-05	3 - 39 yrs.	148
Richmond	Virginia	Corporate Office	—	684	1,038	3,925	5,647	(2,462)	1893	Jun-04	3 - 39 yrs.	N/A
Kent	Washington	TownePlace Suites	—	1,831	10,731	1,612	14,174	(2,941)	1999	Dec-05	3 - 39 yrs.	152
Mukilteo	Washington	TownePlace Suites	—	1,499	11,061	1,380	13,940	(2,804)	1999	Dec-05	3 - 39 yrs.	128
Redmond	Washington	Marriott	—	9,504	56,168	2,144	67,816	(13,571)	2004	Jul-04	3 - 39 yrs.	262
Renton	Washington	Hilton Garden Inn	—	1,272	14,679	2,252	18,203	(4,101)	1998	Nov-05	3 - 39 yrs.	150
Deposits on Construction in Progress			—	—	—	171	171	—				
			<u>\$19,305</u>	<u>\$107,179</u>	<u>\$747,682</u>	<u>\$77,353</u>	<u>\$932,214</u>	<u>\$(185,860)</u>				<u>7,658</u>

<sup>(1)</sup> Land is owned fee simple unless cost is \$0, which means the property is subject to a ground lease.



Investment in real estate at December 31, 2011, consisted of the following (in thousands):

Land .....	\$ 107,139
Building and Improvements .....	746,486
Furniture, Fixtures and Equipment .....	75,546
Franchise Fees .....	3,043
	<u>932,214</u>
Less Accumulated Depreciation .....	(185,860)
Investment in Real Estate, net .....	<u>\$ 746,354</u>

For additional information about the Company's properties, refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

### **Item 3. Legal Proceedings**

The term the "Apple REIT Companies" means the Company, Apple REIT Seven, Inc., Apple REIT Eight, Inc., Apple REIT Nine, Inc. and Apple REIT Ten, Inc.

On December 13, 2011, the United States District Court for the Eastern District of New York ordered that three putative class actions, Kronberg, et al. v. David Lerner Associates, Inc., et al., Kowalski v. Apple REIT Ten, Inc., et al., and Leff v. Apple REIT Ten, Inc., et al., be consolidated and amended the caption of the consolidated matter to be In re Apple REITs Litigation. The District Court also appointed lead plaintiffs and lead counsel for the consolidated action and ordered lead plaintiffs to file and serve a consolidated complaint by February 17, 2012. The parties agreed to a schedule for answering or otherwise responding to the complaint and that briefing on any motion to dismiss the complaint will be concluded by June 18, 2012. The Company was previously named as a party in the Kronberg, et al. v. David Lerner Associates, Inc., et al. class action lawsuit.

On February 17, 2012, lead plaintiffs and lead counsel in the In re Apple REITs Litigation, Civil Action No. 1:11-cv-02919-KAM-JO, filed an amended consolidated complaint in the United States District Court for the Eastern District of New York against the Company, Apple Suites Realty Group, Inc., Apple Eight Advisors, Inc., Apple Nine Advisors, Inc., Apple Ten Advisors, Inc., Apple Fund Management, LLC, Apple REIT Seven, Inc., Apple REIT Eight, Inc., Apple REIT Nine, Inc. and Apple REIT Ten, Inc., their directors and certain officers, and David Lerner Associates, Inc. and David Lerner. The consolidated complaint, purportedly brought on behalf of all purchasers of Units in the Company and the other Apple REIT Companies, or those who otherwise acquired these Units that were offered and sold to them by David Lerner Associates, Inc., or its affiliates and on behalf of subclasses of shareholders in New Jersey, New York, Connecticut and Florida, asserts claims under Sections 11, 12 and 15 of the Securities Act of 1933. The consolidated complaint also asserts claims for breach of fiduciary duty, aiding and abetting breach of fiduciary duty, negligence, and unjust enrichment, and claims for violation of the securities laws of Connecticut and Florida. The complaint seeks, among other things, certification of a putative nationwide class and the state subclasses, damages, rescission of share purchases and other costs and expenses.

On February 16, 2012, one shareholder of the Company and Apple REIT Seven, Inc., filed a putative class action lawsuit captioned Laurie Brody v. David Lerner Associates, Inc., et al., Case No. 1:12-cv-782-ERK-RER, in the United States District Court for the Eastern District of New York against the Company, Apple REIT Seven, Inc., Glade M. Knight, Apple Suites Realty Group, Inc., David Lerner Associates, Inc., and certain executives of David Lerner Associates, Inc. The complaint, purportedly brought on behalf of all purchasers of Units of the Company and Apple REIT Seven, Inc., or those who otherwise acquired these Units, asserts claims for breach of fiduciary duty and aiding and abetting breach of fiduciary duty, unjust enrichment, negligence, breach of written or implied contract (against the David Lerner Associates, Inc. defendants only), and for violation of New Jersey's state securities laws. Counsel for the plaintiff in Laurie Brody v. David Lerner Associates et. al. has consented to consolidating this case into the In re Apple REITs Litigation.

The Company believes that any claims against it, its officers and directors and other Apple entities are without merit, and intends to defend against them vigorously. At this time, the Company cannot reasonably predict the outcome of these proceedings or provide a reasonable estimate of the possible loss or range of loss due to these proceedings, if any.

**Item 4. *Mine Safety Disclosures***

Not Applicable

## PART II

### **Item 5. Market For Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities**

#### *Common Shares*

There is currently no established public market in which the Company's common shares are traded. As of December 31, 2011, there were 91.2 million Units outstanding. Each Unit consists of one common share, no par value, and one Series A preferred share of the Company. The Company is currently selling shares to its existing shareholders at a price of \$11.00 per share through its Dividend Reinvestment Plan. The Units are held by approximately 19,900 beneficial shareholders. In 2011, there was a tender offer made for the Units of the Company by a group of bidders. In December 2011, the bidders announced they acquired 8,107 Units for \$5 a Unit. The Units acquired by the tender offer were approximately .009% of the Company's outstanding shares. The weighted average price paid for shares through the tender offer and the Company's Unit Redemption Program in 2011 was \$10.96 per Unit. The bidders made another tender offer in February 2012 at \$6 per Unit. The offer expires in April 2012.

#### *Dividend Reinvestment Plan*

In February 2006, the Company instituted a Dividend Reinvestment Plan for its shareholders. The plan provides a way to increase shareholder investment in the Company by reinvesting dividends to purchase additional Units of the Company. The uses of the proceeds from this plan may include purchasing Units under the Company's Unit Redemption Program, enhancing properties, satisfying financing obligations and other expenses, increasing working capital, funding various corporate operations, and acquiring hotels. The Company has registered 20.0 million Units for potential issuance under the plan. As of December 31, 2011, approximately 16.7 million Units, representing \$183.6 million in proceeds to the Company, have been issued under the plan. As of December 31, 2011 and 2010, the Company had approximately 28.5 million and 38.1 million Units participating in the Dividend Reinvestment Plan. Since there continues to be demand for the Units at \$11 per Unit, the Company's Board of Directors does not believe the offering price under the Dividend Reinvestment Plan should be changed at this time. However, the Board of Directors could change the price as it determines appropriate.

#### *Unit Redemption Program*

In July 2005, the Company instituted a Unit Redemption Program to provide limited interim liquidity to its shareholders who have held their Units for at least one year. Shareholders may request redemption of Units for a purchase price equal to the lesser of: (1) the purchase price per Unit that the shareholder actually paid for the Unit; or (2) \$11.00 per Unit. The Company reserves the right to change the purchase price of redemptions, reject any request for redemption, or otherwise amend the terms of, suspend, or terminate the Unit Redemption Program. As noted below, during 2011, the total redemption requests exceeded the authorized amount of redemptions and the Board of Directors has and will continue to limit the amount of redemptions as it deems prudent.

Since inception of the program through December 31, 2011, the Company has redeemed approximately 16.6 million Units representing \$182.4 million. During the year ended December 31, 2011, the Company redeemed approximately 2.8 million Units in the amount of \$30.2 million. As contemplated in the program, beginning with the July 2011 redemption, the Company redeemed Units on a pro-rata basis with approximately 17% of the amount requested redeemed in the third quarter of 2011 and approximately 7% of the amount requested redeemed in October 2011 (the last scheduled redemption date in 2011), leaving approximately 9.2 million Units requested but not redeemed. Prior to July 2011, the Company had redeemed 100% of redemption requests. The Company has a number of cash sources including cash from operations, dividend reinvestment plan proceeds, borrowings under its credit facilities and asset sales from which it can make redemptions. See the Company's complete consolidated statements of cash flows for the years ended December 31, 2011, 2010 and 2009 in the Company's audited financial statements in Item 8 of this Form 10-K for further description of the sources and uses of the Company's cash flows. The following is a summary of redemptions during the fourth quarter of 2011 (no redemptions occurred in November and December 2011):



### Issuer Purchases of Equity Securities

Period	(a)	(b)	(c)	(d)
	Total Number of Units Purchased	Average Price Paid per Unit	Total Number of Units Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Units that May Yet Be Purchased Under the Plans or Programs
October 2011 .....	726,613	\$10.98	726,613	(1)

(1) The maximum number of Units that may be redeemed in any 12 month period is limited to up to five percent (5.0%) of the weighted average number of Units outstanding from the beginning of the 12 month period, subject to the Company's right to change the number of Units to be redeemed.

#### *Series A Preferred Shares*

The Series A preferred shares have no voting rights and no conversion rights. In addition, the Series A preferred shares are not separately tradable from the common shares to which they relate. The Series A preferred shares do not have any distribution rights except a priority distribution upon the sale of the Company's assets. The priority distribution ("Priority Distribution") will be equal to \$11.00 per Series A preferred share, and will be paid before any distribution will be made to the holders of any other shares. Upon the Priority Distribution, the Series A preferred shares will have no other distribution rights.

#### *Series B Convertible Preferred Shares*

In January 2004, the Company issued 240,000 Series B convertible preferred shares to Glade M. Knight, the Company's Chairman and Chief Executive Officer. There are no dividends payable on the Series B convertible preferred shares. Holders of more than two-thirds of the Series B convertible preferred shares must approve any proposed amendment to the Articles of Incorporation that would adversely affect the Series B convertible preferred shares. Upon liquidation, each holder of the Series B convertible preferred shares is entitled to a priority liquidation payment. However, the priority liquidation payment of the holder of the Series B convertible preferred shares is junior to the holders of the Series A preferred shares' distribution rights. The holder of a Series B convertible preferred share is entitled to a liquidation payment of \$11 per number of common shares into which each Series B convertible preferred share would convert. In the event that the liquidation of the Company's assets results in proceeds that exceed the distribution rights of the Series A preferred shares and the Series B convertible preferred shares, the remaining proceeds will be distributed between the common shares and the Series B convertible preferred shares, on an as converted basis. The Series B convertible preferred shares are convertible into common shares upon and for 180 days following the occurrence of any of the following events: (1) substantially all of the Company's assets, stock or business is sold or transferred through exchange, merger, consolidation, lease, share exchange or otherwise, other than a sale of assets in liquidation, dissolution or winding up of the Company's business; or (2) the termination or expiration without renewal of the advisory agreement with Apple Six Advisors, Inc., or if the Company ceases to use Apple Six Realty Group, Inc. to provide property acquisition and disposition services; or (3) the Company's common shares are listed on any securities exchange or quotation system or in any established market.

#### *Preferred Shares*

The Company's articles of incorporation authorize issuance of up to 15 million additional preferred shares. No preferred shares other than the Series A preferred shares and the Series B convertible preferred shares (discussed above) have been issued. The Company believes that the authorization to issue additional preferred shares benefits the Company and its shareholders by permitting flexibility in financing additional growth, giving the Company additional financing options in corporate planning and in responding to developments in business, including financing of additional acquisitions and other general corporate purposes. Having authorized preferred shares available for issuance in the future gives the Company the ability to respond to future developments and allows preferred shares to be issued without the expense and delay of a special shareholders' meeting. At present, the Company has no specific financing or acquisition plans involving the issuance of additional preferred shares and the Company does not propose to fix the characteristics of any series of

preferred shares in anticipation of issuing preferred shares other than the Series A preferred shares and Series B convertible preferred shares discussed above. The Company cannot now predict whether or to what extent, if any, additional preferred shares will be used or if so used what the characteristics of a particular series may be. The voting rights and rights to distributions of the holders of common shares will be subject to the prior rights of the holders of any subsequently-issued preferred shares. Unless otherwise required by applicable law or regulation, the preferred shares would be issuable without further authorization by holders of the common shares and on such terms and for such consideration as may be determined by the Board of Directors. The preferred shares could be issued in one or more series having varying voting rights, redemption and conversion features, distribution (including liquidating distribution) rights and preferences, and other rights, including rights of approval of specified transactions. A series of preferred shares could be given rights that are superior to rights of holders of common shares and a series having preferential distribution rights could limit common share distributions and reduce the amount holders of common shares would otherwise receive on dissolution.

#### *Distribution Policy*

To maintain its REIT status the Company is required to distribute at least 90% of its ordinary income. Distributions in 2011 totaled \$71.2 million and were paid monthly at a rate of \$0.066 per common share beginning in July 2011 and \$0.064 per common share prior to that date. Distributions in 2010 totaled \$72.3 million and were paid monthly at a rate of \$0.064 per common share beginning in March 2010 and \$0.075 per common share prior to that date. Distributions in 2009 totaled \$82.2 million and were paid monthly at a rate of \$0.075 per common share. The amount and timing of distributions to shareholders are within the discretion of the Company's Board of Directors. The amount and frequency of future distributions will depend on the Company's results of operations, cash flow from operations, economic conditions, working capital requirements, cash requirements to fund investing and financing activities, capital expenditure requirements, including improvements to and expansions of properties and the acquisition of additional properties, as well as the distribution requirements under federal income tax provisions for qualification as a REIT. The Company's line of credit loan agreement can potentially limit distributions to 105% of funds from operations.

#### *Non-Employee Directors Stock Option Plan and Incentive Plan*

The Company's Board of Directors has adopted and the Company's shareholders have approved a Non-Employee Directors Stock Option Plan and an Incentive Plan. The options issued under each plan, upon exercise, convert to Units. Each Unit consists of one common share and one Series A preferred share of the Company. As of December 31, 2011, options to purchase 507,260 Units were outstanding with a weighted average exercise price of \$11 per Unit under the Directors Plan. No options have been issued under the Incentive Plan. The following is a summary of securities issued under the plans as of December 31, 2011:

<u>Plan Category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights</u>	<u>Weighted-average exercise price of outstanding options, warrants and rights</u>	<u>Number of securities remaining available for future issuance under equity compensation plans</u>
<i>Equity Compensation plans approved by security holders</i>			
Non-Employee Directors Stock Option Plan .....	507,260	\$11.00	1,092,285
Incentive Plan .....	—	\$ —	4,029,318

#### **Item 6. Selected Financial Data**

The following table sets forth selected financial data for each of the five years in the period ended December 31, 2011. Certain information in the table has been derived from the Company's audited financial statements and notes thereto. This data should be read in conjunction with Item 7, Management's Discussion and Analysis of Financial Conditions and Results of Operations, and Item 8, the Consolidated Financial Statements and Notes thereto, appearing elsewhere in this Annual Report on Form 10-K.

	For the year ended December 31, 2011	For the year ended December 31, 2010	For the year ended December 31, 2009	For the year ended December 31, 2008	For the year ended December 31, 2007
(in thousands except per share and statistical data)					
<b>Revenues:</b>					
Room revenue.....	\$ 220,227	\$ 206,624	\$ 195,671	\$ 233,112	\$ 229,937
Other revenue.....	16,553	14,634	14,753	19,744	20,672
Reimbursed expenses.....	7,241	6,055	5,899	6,057	886
Total revenue.....	244,021	227,313	216,323	258,913	251,495
<b>Expenses:</b>					
Hotel operating expenses.....	137,986	130,896	126,120	144,751	141,252
Taxes, insurance and other.....	12,133	12,143	13,248	13,438	13,250
Reimbursed expenses.....	7,241	6,055	5,899	6,057	886
General and administrative.....	6,151	6,072	4,935	5,397	5,637
Depreciation.....	32,432	30,806	30,417	30,411	27,201
Interest expense, net.....	3,617	3,800	2,312	1,784	1,853
Total expenses.....	199,560	189,772	182,931	201,838	190,079
Income from continuing operations.....	44,461	37,541	33,392	57,075	61,416
Income (loss) from discontinued operations.....	700	(3,157)	(13)	1,427	1,912
Net income.....	\$ 45,161	\$ 34,384	\$ 33,379	\$ 58,502	\$ 63,328
<b>Per Share:</b>					
Income from continuing operations per common share.....	\$ 0.48	\$ 0.41	\$ 0.37	\$ 0.63	\$ 0.69
Income (loss) from discontinued operations per common share.....	0.01	(0.03)	—	0.01	0.02
Net income per common share.....	\$ 0.49	\$ 0.38	\$ 0.37	\$ 0.64	\$ 0.71
Distributions paid per common share...	\$ 0.78	\$ 0.79	\$ 0.90	\$ 0.90	\$ 0.88
Weighted-average common shares outstanding—basic and diluted.....	91,254	91,323	91,178	90,899	89,644
<b>Balance Sheet Data (at end of period):</b>					
Cash and cash equivalents.....	\$ 32	\$ —	\$ —	\$ 935	\$ 33,261
Investment in real estate, net.....	\$ 746,354	\$ 764,557	\$ 801,646	\$ 823,463	\$ 820,468
Total assets.....	\$ 759,365	\$ 788,213	\$ 815,584	\$ 849,783	\$ 882,657
Notes payable.....	\$ 63,067	\$ 63,736	\$ 54,040	\$ 29,097	\$ 51,679
Shareholders' equity.....	\$ 690,628	\$ 719,771	\$ 757,488	\$ 809,382	\$ 816,244
Net book value per share.....	\$ 7.57	\$ 7.87	\$ 8.28	\$ 8.82	\$ 9.04
<b>Other Data:</b>					
Cash flow from (used in):					
Operating activities.....	\$ 78,138	\$ 70,956	\$ 66,029	\$ 88,747	\$ 89,848
Investing activities.....	\$ (2,721)	\$ (8,505)	\$ (6,571)	\$ (33,234)	\$ (15,627)
Financing activities.....	\$ (75,385)	\$ (62,451)	\$ (60,393)	\$ (87,839)	\$ (67,120)
Number of hotels owned at end of period (including hotels held for sale).....	66	68	68	68	67
Average Daily Rate (ADR) <sup>(b)(f)</sup> .....	\$ 110	\$ 104	\$ 107	\$ 117	\$ 113
Occupancy <sup>(f)</sup> .....	72%	71%	66%	71%	74%
Revenue Per Available Room (RevPAR) <sup>(c)(f)</sup> .....	\$ 79	\$ 74	\$ 70	\$ 83	\$ 84
Total rooms sold <sup>(d)(f)</sup> .....	2,005,542	1,986,223	1,836,076	1,990,489	2,028,026
Total rooms available <sup>(e)(f)</sup> .....	2,792,055	2,791,708	2,791,698	2,795,278	2,737,692
<b>Funds From Operations Calculation<sup>(a)</sup>:</b>					
Net income.....	\$ 45,161	\$ 34,384	\$ 33,379	\$ 58,502	\$ 63,328
Loss on hotels held for sale.....	—	3,567	—	—	—
Depreciation of real estate owned..	32,432	31,199	30,938	29,313	26,782
Funds from operations.....	\$ 77,593	\$ 69,150	\$ 64,317	\$ 87,815	\$ 90,110

(a) Funds from operations (FFO) is defined as net income (computed in accordance with generally accepted accounting principles—GAAP) excluding gains and losses from sales of depreciable property, plus depreciation and amortization and the loss on hotels held for sale. The Company considers FFO in evaluating property acquisitions and its operating performance and believes that FFO should be considered along with, but not as an alternative to, net income and cash flows as a measure of the Company's activities



in accordance with GAAP. The Company considers FFO as a supplemental measure of operating performance in the real estate industry, and along with the other financial measures included in this form 10-K, including net income, cash flow from operating activities, financing activities and investing activities, provides investors with an indication of the performance of the Company. The Company's definition of FFO is not necessarily the same as such terms that are used by other companies. FFO is not necessarily indicative of cash available to fund cash needs.

- (b) Total room revenue divided by number of room nights sold.
- (c) ADR multiplied by occupancy percentage.
- (d) Represents the number of room nights sold during the period.
- (e) Represents the number of rooms owned by the Company multiplied by the number of nights in the period.
- (f) From continuing operations.

## **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

This Annual Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are typically identified by use of terms such as “may,” “believe,” “expect,” “anticipate,” “intend,” “estimate,” “project,” “target,” “goal,” “plan,” “should,” “will,” “predict,” “potential,” and similar expressions that convey the uncertainty of future events or outcomes. Such statements involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance, or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to, the ability of the Company to implement its acquisition strategy and operating strategy; the Company's ability to manage planned growth; changes in economic cycles; the outcome of current and future litigation, regulatory proceedings or inquiries; and competition within the hotel industry. Although the Company believes that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate, and therefore there can be no assurance that such statements included in this Annual Report will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by the Company or any other person that the results or conditions described in such statements or the objectives and plans of the Company will be achieved. In addition, the Company's qualification as a real estate investment trust involves the application of highly technical and complex provisions of the Internal Revenue Code. Readers should carefully review the Company's financial statements and the notes thereto, as well as the risk factors described in the Company's filings with the Securities and Exchange Commission and Item 1A in this report. Any forward-looking statement that the Company makes speaks only as of the date of this report. The Company undertakes no obligation to publicly update or revise any forward-looking statements or cautionary factors as a result of new information, future events or otherwise, except as required by law.

### **Overview**

Apple REIT Six, Inc., together with its wholly owned subsidiaries (the “Company”), was formed and initially capitalized on January 20, 2004, with its first investor closing on April 23, 2004. The Company owns 66 hotels within different markets in the United States. The Company is treated as a Real Estate Investment Trust (“REIT”) for federal income tax purposes. The Company's first hotel was acquired on May 28, 2004. Although hotel performance can be influenced by many factors including local competition, local and general economic conditions in the United States and the performance of individual managers assigned to each hotel, performance of the hotels as compared to other hotels within their respective local markets, in general, has met the Company's expectations for the period owned. With the significant decline in economic conditions throughout the United States beginning in the second half of 2008 through 2010, the Company experienced a decline in revenue as compared to 2008, but an increase in revenue from continuing operations of 7% as compared to 2010. Although there is no way to predict future general economic conditions, the Company anticipates mid single digit percentage revenue increases for 2012 as compared to 2011.

In evaluating financial condition and operating performance, the most important indicators on which the Company focuses are revenue measurements, such as average occupancy, average daily rate (“ADR”), revenue per available room (“RevPAR”), and market yield, which compares an individual hotel's results to others in its local market, and expenses, such as hotel operating expenses, general and administrative and other expenses described below.

The Company continually monitors the profitability of its properties and attempts to maximize shareholder value by timely disposal of properties. During the third quarter of 2010 the Company committed to sell two underperforming assets. These properties were the Tempe, Arizona TownePlace Suites and SpringHill Suites. The Company entered into a contract to sell the properties in January 2011 and completed the sale of the properties in June 2011. The results of these properties have been included in discontinued operations and are not included in the summary below.

The following is a summary of the Company's results from continuing operations:

(in thousands except statistical data)	Year ended December 31, 2011	Percent of Hotel Revenue	Year ended December 31, 2010	Percent of Hotel Revenue	Percent Change
Total hotel revenue .....	\$236,780	100%	\$221,258	100%	7%
Hotel operating expenses .....	137,986	58%	130,896	59%	5%
Taxes, insurance and other expense...	12,133	5%	12,143	5%	—%
General and administrative expense ..	6,151	3%	6,072	3%	1%
Depreciation .....	32,432		30,806		5%
Interest expense, net .....	3,617		3,800		—5%
Number of hotels .....	66		66		—%
Average Market Yield <sup>(1)</sup> .....	121		121		—%
ADR .....	\$ 110		\$ 104		6%
Occupancy .....	72%		71%		1%
RevPAR .....	\$ 79		\$ 74		7%

(1) Calculated from data provided by Smith Travel Research, Inc.<sup>®</sup> Excludes properties under renovations during the applicable periods.

### ***Legal Proceedings and Related Matters***

The term the “Apple REIT Companies” means the Company, Apple REIT Seven, Inc., Apple REIT Eight, Inc., Apple REIT Nine, Inc. and Apple REIT Ten, Inc.

On December 13, 2011, the United States District Court for the Eastern District of New York ordered that three putative class actions, Kronberg, et al. v. David Lerner Associates, Inc., et al., Kowalski v. Apple REIT Ten, Inc., et al., and Leff v. Apple REIT Ten, Inc., et al., be consolidated and amended the caption of the consolidated matter to be In re Apple REITs Litigation. The District Court also appointed lead plaintiffs and lead counsel for the consolidated action and ordered lead plaintiffs to file and serve a consolidated complaint by February 17, 2012. The parties agreed to a schedule for answering or otherwise responding to the complaint and that briefing on any motion to dismiss the complaint will be concluded by June 18, 2012. The Company was previously named as a party in the Kronberg, et al. v. David Lerner Associates, Inc., et al. class action lawsuit.

On February 17, 2012, lead plaintiffs and lead counsel in the In re Apple REITs Litigation, Civil Action No. 1:11-cv-02919-KAM-JO, filed an amended consolidated complaint in the United States District Court for the Eastern District of New York against the Company, Apple Suites Realty Group, Inc., Apple Eight Advisors, Inc., Apple Nine Advisors, Inc., Apple Ten Advisors, Inc., Apple Fund Management, LLC, Apple REIT Seven, Inc., Apple REIT Eight, Inc., Apple REIT Nine, Inc. and Apple REIT Ten, Inc., their directors and certain officers, and David Lerner Associates, Inc. and David Lerner. The consolidated complaint, purportedly brought on behalf of all purchasers of Units in the Company and the other Apple REIT Companies, or those who otherwise acquired these Units that were offered and sold to them by David Lerner Associates, Inc., or its affiliates and on behalf of subclasses of shareholders in New Jersey, New York, Connecticut and Florida, asserts claims under Sections 11, 12 and 15 of the Securities Act of 1933. The consolidated complaint also asserts claims for breach of fiduciary duty, aiding and abetting breach of fiduciary duty, negligence, and unjust enrichment, and claims for violation of the securities laws of Connecticut and Florida. The complaint seeks, among other things, certification of a putative nationwide class and the state subclasses, damages, rescission of share purchases and other costs and expenses.

On February 16, 2012, one shareholder of the Company and Apple REIT Seven, Inc., filed a putative class action lawsuit captioned Laurie Brody v. David Lerner Associates, Inc., et al., Case No. 1:12-cv-782-ERK-RER, in the United States District Court for the Eastern District of New York against the Company, Apple REIT Seven, Inc., Glade M. Knight, Apple Suites Realty Group, Inc., David Lerner Associates, Inc., and certain executives of David Lerner Associates, Inc. The complaint, purportedly brought on behalf of all purchasers of Units of the Company and Apple REIT Seven, Inc., or those who otherwise acquired these Units, asserts claims for breach of fiduciary duty and aiding and abetting breach of fiduciary duty, unjust enrichment, negligence, breach of written or implied contract (against the David Lerner Associates, Inc. defendants only), and for violation of New Jersey's state securities laws. Counsel for the plaintiff in Laurie Brody v. David Lerner Associates et. al. has consented to consolidating this case into the In re Apple REITs Litigation.



The Company believes that any claims against it, its officers and directors and other Apple entities are without merit, and intends to defend against them vigorously. At this time, the Company cannot reasonably predict the outcome of these proceedings or provide a reasonable estimate of the possible loss or range of loss due to these proceedings, if any.

### **Hotels Owned**

The following table summarizes the location, brand, manager, date acquired, number of rooms and gross purchase price for each of the 66 hotels the Company owned at December 31, 2011. All dollar amounts are in thousands.

<b>City</b>	<b>State</b>	<b>Brand</b>	<b>Manager</b>	<b>Date Acquired</b>	<b>Rooms</b>	<b>Gross Purchase Price</b>
Birmingham .....	Alabama	Fairfield Inn	LBA	8/25/05	63	\$ 2,176
Dothan .....	Alabama	Courtyard	LBA	8/11/05	78	8,016
Dothan .....	Alabama	Hampton Inn & Suites	LBA	6/24/05	85	8,673
Huntsville .....	Alabama	Fairfield Inn	LBA	9/30/05	79	4,954
Huntsville .....	Alabama	Residence Inn	LBA	6/24/05	78	8,288
Montgomery .....	Alabama	SpringHill Suites	LBA	9/30/05	79	6,835
Tuscaloosa .....	Alabama	Courtyard	LBA	8/25/05	78	7,551
Tuscaloosa .....	Alabama	Fairfield Inn	LBA	8/25/05	63	3,982
Anchorage .....	Alaska	Hampton Inn	Stonebridge	3/14/05	101	11,500
Anchorage .....	Alaska	Hilton Garden Inn	Stonebridge	10/12/04	125	18,900
Anchorage .....	Alaska	Homewood Suites	Stonebridge	10/12/04	122	13,200
Phoenix .....	Arizona	Hampton Inn	Stonebridge	10/12/04	99	6,700
Arcadia .....	California	Hilton Garden Inn	Stonebridge	10/12/04	124	12,000
Arcadia .....	California	SpringHill Suites	Stonebridge	10/12/04	86	8,100
Bakersfield .....	California	Hilton Garden Inn	Hilton	3/18/05	120	11,500
Folsom .....	California	Hilton Garden Inn	Inn Ventures	11/30/05	100	18,028
Foothill Ranch ....	California	Hampton Inn	Stonebridge	4/21/05	84	7,400
Lake Forest .....	California	Hilton Garden Inn	Stonebridge	10/12/04	103	11,400
Milpitas .....	California	Hilton Garden Inn	Inn Ventures	11/30/05	161	18,600
Roseville .....	California	Hilton Garden Inn	Inn Ventures	11/30/05	131	20,759
San Francisco .....	California	Hilton Garden Inn	White	1/30/06	169	12,266
Boulder .....	Colorado	Marriott	White	5/9/05	157	30,000
Glendale .....	Colorado	Hampton Inn & Suites	Stonebridge	10/12/04	133	14,700
Lakewood .....	Colorado	Hampton Inn	Stonebridge	10/12/04	170	10,600
Farmington .....	Connecticut	Courtyard	White	10/20/05	119	16,330
Rocky Hill .....	Connecticut	Residence Inn	White	8/1/05	96	12,070
Wallingford .....	Connecticut	Homewood Suites	White	7/8/05	104	12,780
Clearwater .....	Florida	SpringHill Suites	LBA	2/17/06	79	6,923
Lake Mary .....	Florida	Courtyard	LBA	3/18/05	86	6,000
Lakeland .....	Florida	Residence Inn	LBA	6/24/05	78	9,886
Orange Park .....	Florida	Fairfield Inn	LBA	11/8/05	83	7,221
Panama City .....	Florida	Courtyard	LBA	4/26/06	84	9,245
Pensacola .....	Florida	Courtyard	LBA	8/25/05	90	11,369
Pensacola .....	Florida	Fairfield Inn	LBA	8/25/05	63	4,858
Pensacola .....	Florida	Hampton Inn & Suites	LBA	7/21/05	85	9,279
Tallahassee .....	Florida	Hilton Garden Inn	Hilton	3/18/05	99	10,850
Albany .....	Georgia	Courtyard	LBA	6/24/05	84	8,597
Columbus .....	Georgia	Residence Inn	LBA	6/24/05	78	7,888
Savannah .....	Georgia	SpringHill Suites	LBA	9/30/05	79	5,407
Valdosta .....	Georgia	Courtyard	LBA	10/3/05	84	8,284
Mt. Olive .....	New Jersey	Residence Inn	White	9/15/05	123	12,070
Somerset .....	New Jersey	Homewood Suites	White	8/17/05	123	17,750

<u>City</u>	<u>State</u>	<u>Brand</u>	<u>Manager</u>	<u>Date Acquired</u>	<u>Rooms</u>	<u>Gross Purchase Price</u>
Saratoga Springs...	New York	Hilton Garden Inn	White	9/29/05	112	17,750
Roanoke Rapids...	North Carolina	Hilton Garden Inn	Newport	3/10/08	147	17,764
Hillsboro .....	Oregon	Courtyard	Inn Ventures	3/9/06	155	11,000
Hillsboro .....	Oregon	Residence Inn	Inn Ventures	3/9/06	122	15,500
Hillsboro .....	Oregon	TownePlace Suites	Inn Ventures	12/19/05	136	11,500
Portland .....	Oregon	Residence Inn	Inn Ventures	12/19/05	258	42,000
Pittsburgh .....	Pennsylvania	Residence Inn	White	9/2/05	156	11,000
Myrtle Beach .....	South Carolina	Courtyard	Marriott	6/8/04	135	9,200
Nashville .....	Tennessee	Homewood Suites	Hilton	5/24/05	121	8,103
Arlington .....	Texas	SpringHill Suites	Western	6/30/05	122	7,486
Arlington .....	Texas	TownePlace Suites	Western	6/30/05	95	7,148
Dallas .....	Texas	SpringHill Suites	Western	12/9/05	148	19,500
Ft. Worth .....	Texas	Homewood Suites	Hilton	5/24/05	137	9,097
Ft. Worth .....	Texas	Residence Inn	Western	5/6/05	149	17,000
Ft. Worth .....	Texas	SpringHill Suites	Marriott	5/28/04	145	13,340
Laredo .....	Texas	Homewood Suites	Western	11/30/05	106	10,500
Laredo .....	Texas	Residence Inn	Western	9/12/05	109	11,445
Las Colinas .....	Texas	TownePlace Suites	Western	6/30/05	136	7,178
McAllen .....	Texas	Hilton Garden Inn	Western	7/19/05	104	9,000
Fredericksburg .....	Virginia	Hilton Garden Inn	Hilton	12/20/05	148	16,600
Kent .....	Washington	TownePlace Suites	Inn Ventures	12/19/05	152	12,000
Mukilteo .....	Washington	TownePlace Suites	Inn Ventures	12/19/05	128	12,000
Redmond .....	Washington	Marriott	Marriott	7/7/04	262	64,000
Renton .....	Washington	Hilton Garden Inn	Inn Ventures	11/30/05	150	16,096
Total .....					<u>7,658</u>	<u>\$829,142</u>

### ***Management and Franchise Agreements***

Each of the Company's 66 hotels are operated and managed, under separate management agreements, by affiliates of one of the following companies: Marriott International, Inc. ("Marriott"), Stonebridge Realty Advisors, Inc. ("Stonebridge"), Hilton Worldwide ("Hilton"), Western International ("Western"), Larry Blumberg & Associates ("LBA"), White Lodging Services Corporation ("White"), Inn Ventures, Inc. ("Inn Ventures"), or Newport Hospitality Group, Inc. ("Newport"). The agreements have remaining terms ranging from 1 to 23 years. Fees associated with the agreements generally include the payment of base management fees, incentive management fees, accounting fees, and other fees for centralized services which are allocated among all of the hotels that receive the benefit of such services. Base management fees are calculated as a percentage of gross revenues. Incentive management fees are calculated as a percentage of operating profit in excess of a priority return to the Company, as defined in the management agreements. The Company has the option to terminate the management agreements if specified performance thresholds are not satisfied. During the years ended December 31, 2011, 2010 and 2009, the Company incurred approximately \$8.0 million, \$7.0 million and \$6.6 million in management fees for continuing operations.

Stonebridge, Western, LBA, White, Inn Ventures and Newport are not affiliated with either Marriott or Hilton, and as a result, the hotels managed by these companies were required to obtain separate franchise agreements with each respective franchisor. The Hilton franchise agreements generally provide for an initial term of 13 to 20 years. Fees associated with the Hilton agreements generally include the payment of royalty fees and program fees based on room revenues. The Marriott franchise agreements provide for an initial term of 15 to 20 years. Fees associated with the Marriott agreements include the payment of royalty fees, marketing fees, reservation fees and a communications support fee based on room revenues. During the years ended December 31, 2011, 2010 and 2009, the Company incurred approximately \$9.9 million, \$9.3 million and \$8.8 million in franchise fees for continuing operations.

## ***Results of Operations for Years 2011 and 2010***

As of December 31, 2011, the Company owned 66 hotels with 7,658 rooms. The Company's portfolio reflects the sale of two Tempe, Arizona properties in June 2011. Hotel performance is impacted by many factors, including the economic conditions in the United States, as well as each locality. During the period from the second half of 2008 through 2010, the overall weakness in the U.S. economy had a considerable negative impact on both consumer and business travel. As a result, revenue in most markets in the United States declined from levels of 2007 and the first half of 2008. However, economic conditions are showing evidence of improvement as shown in the Company's 2011 growth in revenue from continuing operations of 7% as compared to 2010. Although the Company expects continued improvement in revenue and operating income in 2012, it is not anticipated that revenue and operating income will completely return to pre-recession levels. The Company's hotels in general have shown results consistent with industry and brand averages for the period of ownership.

### ***Revenues***

The Company's principal source of revenue is hotel room revenue and other related revenue. For the years ended December 31, 2011 and 2010, the Company had total hotel revenue from continuing operations of \$236.8 million and \$221.3 million, respectively. For the years ended December 31, 2011 and 2010, the hotels achieved average occupancy of 72% and 71%, ADR of \$110 and \$104 and RevPAR of \$79 and \$74. ADR is calculated as room revenue divided by the number of rooms sold, and RevPAR is calculated as occupancy multiplied by ADR. These rates are consistent with industry and brand averages. Since the beginning of 2010 the Company has experienced an increase in RevPAR. The first component to improve was occupancy and as occupancy increases have stabilized, ADR has improved with a 6% increase in 2011 compared to 2010. With continued improvement in both demand and rates, the Company and industry are anticipating a mid single digit percentage increase in revenue for 2012, as compared to 2011. While reflecting the impact of post-recessionary levels of single-digit growth in national economic activity, the Company's hotels on average also continue to be leaders in their respective markets. The Company's average Market Yield for 2011 and 2010 was 121. The Market Yield is a measure of each hotel's RevPAR compared to the average in the market; with 100 being the average (the index excludes hotels under renovation) and is provided by Smith Travel Research, Inc.®, an independent company that tracks historical hotel performance in most markets throughout the world.

### ***Expenses***

For the years ended December 31, 2011 and 2010, hotel operating expenses from continuing operations totaled \$138.0 million and \$130.9 million, respectively, representing 58% of total hotel revenue in 2011 and 59% of total hotel revenue in 2010. Hotel operating expenses consist of operating expense, hotel administrative expense, sales and marketing expense, utilities expense, repair and maintenance expense, franchise fees and management fees. Hotel operational expenses for 2011 reflect the impact of increases in revenues at most of the Company's hotels, and the Company's efforts to control costs in a challenging economic environment. Certain operating costs, such as management costs, certain utility costs and minimum supply and maintenance costs are relatively fixed in nature. The Company has been successful in reducing, relative to revenue increases, certain labor costs, hotel supply costs, maintenance costs, and utilities by continually monitoring and sharing utilization data across its hotels and management companies. Although operating expenses will increase as occupancy and revenue increases, the Company has and will continue to work with its management companies to reduce costs as a percentage of revenue as aggressively as possible while maintaining quality and service levels at each property.

Taxes, insurance, and other expenses from continuing operations for the years ended December 31, 2011 and 2010 were \$12.1 million for each period, or 5% of total hotel revenue. Taxes will likely increase if the economy continues to improve and localities reassess property values accordingly. Also, 2012 insurance rates have increased due to property and casualty carriers' losses world-wide in the past year.

General and administrative expense for the years ended December 31, 2011 and 2010 was \$6.2 million and \$6.1 million, or 3% of total hotel revenue. The principal components of general and administrative expense are advisory fees and reimbursable expenses, legal fees, accounting fees, reporting expenses, and the Company's share of the loss from its investment in Apple Air Holding, LLC. During 2011 and 2010, the Company incurred approximately \$0.9 million and \$0.5 million, respectively, in legal costs related to legal and related



matters discussed herein and continued costs related to responding to Securities and Exchange Commission inquiries. The Company anticipates it will continue to incur significant legal costs at least during the first half of 2012. Also, during the fourth quarter of 2011, the Company began to incur costs associated with its evaluation of a potential consolidation transaction with Apple REIT Seven, Inc., Apple REIT Eight, Inc., and Apple REIT Nine, Inc. Total costs incurred were approximately \$0.6 million. These costs will increase in 2012 if a transaction is pursued.

Depreciation expense from continuing operations for the years ended December 31, 2011 and 2010 was \$32.4 million and \$30.8 million. Depreciation expense represents the expense of the 66 hotels included in the Company's continuing operations and related personal property for their respective periods owned. The increase in depreciation is due to renovations completed throughout 2010 and 2011.

Interest expense, net was \$3.6 million and \$3.8 million for the years ended December 31, 2011 and 2010. Interest expense relates to debt assumed with certain properties acquired, as well as borrowings on the Company's credit facility. Interest expense decreased from 2010 due to the extinguishment of one mortgage in 2011 totaling \$4.0 million, one mortgage extinguishment in 2010 totaling \$2.9 million and the reduction in the effective interest rate under the Company's credit facility. This was partially offset by increased borrowings on the Company's credit facility. The Company capitalized interest of approximately \$0.2 million and \$0.1 million in 2011 and 2010 in conjunction with hotel renovations.

### ***Results of Operations for Years 2010 and 2009***

#### *Revenues*

For the years ended December 31, 2010 and 2009, the Company had total hotel revenue from continuing operations of \$221.3 million and \$210.4 million, respectively. For the years ended December 31, 2010 and 2009, the hotels achieved average occupancy of 71% and 66%, ADR of \$104 and \$107 and RevPAR of \$74 and \$70. These rates were consistent with industry and brand averages. The Company experienced an increase in demand, as shown by the improved occupancy rates in comparison to 2009. However, in addition to a stabilized economy, this improvement was a result of reduced room rates as reflected in the ADR decline in 2010 from comparable 2009 results. ADR for the fourth quarter of 2010 increased 1% from the fourth quarter of 2009. The Company's hotels continued to be leaders in their respective markets. The Company's average Market Yield for 2010 and 2009 was 120 for continuing hotels and excluding hotels under renovation during the period.

#### *Expenses*

For the years ended December 31, 2010 and 2009, hotel operating expenses from continuing operations totaled \$130.9 million and \$126.1 million, respectively, representing 59% of total hotel revenue in 2010 and 60% of total hotel revenue in 2009. With the Company's revenue decline in 2009, the Company and its managers were aggressively reducing expenses where possible while still maintaining the quality and service levels of its properties. While certain costs of a hotel are fixed in nature, the Company was successful in reducing overall payroll costs, food and supplies, and utilities relative to revenue increases by continually monitoring and sharing utilization data across its hotels and management companies.

Taxes, insurance, and other expenses from continuing operations for the years ended December 31, 2010 and 2009 were \$12.1 million and \$13.2 million, or 5% and 6% of total hotel revenue. The decline was due to lower real estate property tax assessments at selected hotels, including the results of successful appeals of initial assessments for some locations. In addition, the Company experienced slightly lower property insurance expense for most hotel properties, in comparison to insurance rates in effect during 2009.

General and administrative expense for the years ended December 31, 2010 and 2009 was \$6.1 million and \$4.9 million, or 3% and 2% of total hotel revenue. The increases in 2010 were primarily due to approximately \$0.45 million of costs incurred related to reviewing and evaluating various strategic alternatives for the Company and to approximately \$0.45 million related to Apple Air's loss from the contract to trade in its two jets for one new jet. Also, in 2010 the Company incurred approximately \$0.5 million in legal and related costs responding to Securities and Exchange Commission inquiries.

Depreciation expense from continuing operations for the years ended December 31, 2010 and 2009 was \$30.8 million and \$30.4 million.

Interest expense, net was \$3.8 million and \$2.3 million for the years ended December 31, 2010 and 2009. Interest expense related to debt assumed with 14 of the properties acquired as well as a line of credit entered into in March 2008. Total debt assumed was approximately \$54.1 million. Seven of the 14 assumed mortgages, or \$23.2 million, were extinguished in 2008, and one additional mortgage, for \$2.9 million, was extinguished in 2010. Interest expense increased from year to year due to increased borrowings on the Company's line of credit. The Company capitalized interest of approximately \$0.1 million and \$0.3 million in 2010 and 2009 in conjunction with hotel renovations.

### ***Related Parties***

The Company has, and is expected to continue to engage in, significant transactions with related parties. These transactions cannot be construed to be at arm's length and the results of the Company's operations may be different if these transactions were conducted with non-related parties. The Company's independent members of the Board of Directors oversee and annually review the Company's related party relationships (which include the relationships discussed in this section) and are required to approve any significant modifications to the contracts, as well as any new significant related party transactions. There were no changes to the contracts discussed in this section and no new significant related party transactions during the year ended December 31, 2011. The Board of Directors is not required to approve each individual transaction that falls under the related party relationships. However, under the direction of the Board of Directors, at least one member of the Company's senior management team approves each related party transaction.

The Company has a contract with Apple Six Realty Group ("A6RG"), a related party, to provide brokerage services for the acquisition and disposition of the Company's real estate assets. In accordance with the contract, A6RG is paid a fee of 2% of the gross purchase price of any acquisitions or gross sale price of any dispositions of real estate investments, subject to certain conditions plus certain reimbursable costs. As of December 31, 2011, payments to A6RG for services under the terms of this contract have totaled \$16.9 million since inception which were capitalized as a part of the purchase price of the hotels. No fees were incurred during 2011, 2010 and 2009 under the contract.

The Company is party to an advisory agreement with Apple Six Advisors, Inc. ("A6A"), pursuant to which A6A provides management services to the Company. An annual fee ranging from 0.1% to 0.25% of total equity proceeds received by the Company, in addition to certain reimbursable expenses, are payable for these services. Total advisory fees incurred by the Company under the advisory agreement are included in general and administrative expenses and totaled \$1.5 million for each of the three years ended December 31, 2011, 2010 and 2009.

Through its wholly-owned subsidiary, Apple Fund Management, LLC ("AFM"), the Company provides support services to A6RG, Apple Suites Realty Group, Inc. ("ASRG"), A6A, Apple Seven Advisors, Inc. ("A7A"), Apple REIT Seven, Inc., Apple Eight Advisors, Inc. ("A8A"), Apple REIT Eight, Inc., Apple Nine Advisors, Inc. ("A9A"), Apple REIT Nine, Inc., Apple Ten Advisors, Inc. ("A10A") and Apple REIT Ten, Inc. A7A provides day to day advisory and administrative functions for Apple REIT Seven, Inc. A8A provides day to day advisory and administrative functions for Apple REIT Eight, Inc. A9A provides day to day advisory and administrative functions for Apple REIT Nine, Inc. A10A provides day to day advisory and administrative functions for Apple REIT Ten, Inc. ASRG provides real estate brokerage services to Apple REIT Seven, Inc., Apple REIT Eight, Inc., Apple REIT Nine, Inc. and Apple REIT Ten, Inc. Each of these companies has agreed to reimburse the Company for its costs in providing these services. A6RG, ASRG, A6A, A7A, A8A, A9A and A10A are 100% owned by Glade Knight, the Company's Chairman and Chief Executive Officer. For the years ended December 31, 2011, 2010 and 2009, the Company received reimbursement of its costs totaling \$7.2 million, \$6.1 million and \$5.9 million from the participating entities. The Company's net allocated cost for these support services was approximately \$1.5 million, \$1.7 million and \$1.9 million for the years ended December 31, 2011, 2010 and 2009. As part of this arrangement, the day to day transactions may result in amounts due to or from the noted related parties. To effectively manage cash disbursements, the individual companies may make payments for any or all of the related companies. The amounts due to or from the related companies are reimbursed or collected and are not significant in amount.

Although there is a potential conflict on time allocation of personnel due to the fact that a senior manager, officer or staff member will provide services to more than one company, the Company believes that the executives and staff compensation sharing arrangement allows the companies to share costs yet attract and retain superior executives and staff. The cost sharing structure also allows each entity to maintain a much more cost effective structure than having separate staffing arrangements. Amounts reimbursed to the Company include both compensation for personnel and “overhead” (office rent, utilities, benefits, office supplies, etc.) utilized by the companies. AFM receives its direction for staffing and compensation from the advisory companies (A6A, A7A, A8A, A9A, A10A, ASRG, and A6RG) each of which is wholly owned by Glade M Knight. Since the employees of AFM may also perform services for the advisors, individuals, including executive officers, have received and may receive consideration directly from the advisors. The allocation of costs is made by the management of the several REITs and is reviewed at least annually by the Compensation Committees of the several REITs. In making the allocation, management and the Compensation Committee consider all relevant facts related to the Company’s level of business activity and the extent to which the Company requires the services of particular personnel. The costs allocated are actual costs and do not include any profit/markup for the Company. Such payments are not based on formal record keeping regarding the time these personnel devote to the Company, but are based on a good faith estimate by the employee and/or his or her supervisor of the time devoted by the employee to each Company.

Including A6RG, ASRG, A6A, A7A, A8A, A9A and A10A discussed above, Mr. Knight is also Chairman and Chief Executive Officer of Apple REIT Seven, Inc., Apple REIT Eight, Inc., Apple REIT Nine, Inc. and Apple REIT Ten, Inc. Members of the Company’s Board of Directors are also on the boards of Apple REIT Seven, Inc., Apple REIT Eight, Inc. and Apple REIT Nine, Inc.

Included in other assets, net on the Company’s consolidated balance sheet is a 26% equity investment in Apple Air Holding, LLC (“Apple Air”). The other members of Apple Air are Apple REIT Seven, Inc., Apple REIT Eight, Inc. and Apple REIT Nine, Inc. Through its equity investment the Company has access to Apple Air’s aircraft for asset management and renovation purposes. The Company’s equity investment was approximately \$1.7 million and \$1.8 million at December 31, 2011 and 2010. The Company has recorded its share of income and losses of the entity under the equity method of accounting and adjusted its investment in Apple Air accordingly. For the years ended December 31, 2011 and 2010, the Company recorded a loss of approximately \$0.2 million and \$0.9 million as its share of the net loss of Apple Air, which primarily relates to the depreciation of the aircraft and the reduction in basis of the aircraft in 2010 due to the planned trade in for one new airplane in 2011, and is included in general and administrative expense in the Company’s consolidated statements of operations. Apple Air owned two aircraft during 2010, but reduced its ownership to one aircraft during the first quarter of 2011.

The Company has incurred legal fees associated with the Legal Proceedings and Related Matters discussed herein. The Company also incurs other professional fees such as accounting, auditing and reporting. These fees are included in general and administrative expense in the Company’s consolidated statements of operations. To be cost effective, these services received by the Company are shared as applicable across the other Apple REIT Companies (Apple REIT Seven, Inc., Apple REIT Eight, Inc., Apple REIT Nine, Inc., and Apple REIT Ten, Inc.). The professionals cannot always specifically identify their fees for one company therefore management allocates these costs across the companies that benefit from the services.

### ***Series B Convertible Preferred Stock***

The Company has issued 240,000 Series B convertible preferred shares to Mr. Knight in exchange for the payment by him of \$0.10 per Series B convertible preferred share, or an aggregate of \$24,000. The Series B convertible preferred shares are convertible into common shares pursuant to the formula and on the terms and conditions set forth below.

There are no dividends payable on the Series B convertible preferred shares. Holders of more than two-thirds of the Series B convertible preferred shares must approve any proposed amendment to the articles of incorporation that would adversely affect the Series B convertible preferred shares.

Upon the Company’s liquidation, the holder of the Series B convertible preferred shares is entitled to a priority liquidation payment before any distribution of liquidation proceeds to the holders of the common shares. However, the priority liquidation payment of the holder of the Series B convertible preferred shares is junior to the holders of the Series A preferred shares’ distribution rights. The holder of a Series B convertible

preferred share is entitled to a liquidation payment of \$11 per number of common shares each Series B convertible preferred share would be convertible into according to the formula described below. In the event that the liquidation of the Company's assets results in proceeds that exceed the distribution rights of the Series A preferred shares and the Series B convertible preferred shares, the remaining proceeds will be distributed between the common shares and the Series B convertible preferred shares, on an as converted basis.

Each holder of outstanding Series B convertible preferred shares shall have the right to convert any of such shares into common shares of the Company upon and for 180 days following the occurrence of any of the following events:

- (1) substantially all of the Company's assets, stock or business is sold or transferred through exchange, merger, consolidation, lease, share exchange, sale or otherwise, other than a sale of assets in liquidation, dissolution or winding up of the Company;
- (2) the termination or expiration without renewal of the advisory agreement with A6A, or if the Company ceases to use A6RG to provide property acquisition and disposition services; or
- (3) the Company's common shares are listed on any securities exchange or quotation system or in any established market.

Upon the occurrence of any conversion event, each Series B convertible preferred share may be converted into 24.17104 common shares. In the event that the Company raises additional gross proceeds in a subsequent public offering, each Series B convertible preferred share may be converted into an additional number of common shares based on the additional gross proceeds raised through the date of conversion in a subsequent public offering according to the following formula:  $(X/50 \text{ million}) \times 1.20568$ , where X is the additional gross proceeds rounded down to the nearest \$50 million.

No additional consideration is due upon the conversion of the Series B convertible preferred shares. The conversion into common shares of the Series B convertible preferred shares will result in dilution of the shareholders' interests and the termination of the Series A preferred shares.

Expense related to the issuance of 240,000 Series B convertible preferred shares to Mr. Knight will be recognized at such time when the number of common shares to be issued for conversion of the Series B shares can be reasonably estimated and the event triggering the conversion of the Series B shares to common shares occurs. The expense will be measured as the difference between the fair value of the common stock for which the Series B shares can be converted and the amounts paid for the Series B shares. Expense if a conversion event had occurred at December 31, 2011 could range from \$0 to \$63.8 million (assumes \$11 per Unit fair market value), which represents approximately 5.8 million shares of common stock.

### ***Liquidity and Capital Resources***

The following is a summary of the Company's significant contractual obligations as of December 31, 2011:

(000's)	Total	Amount of Commitments Expiring per Period			
		Less than 1 Year	2-3 Years	4-5 Years	Over 5 Years
Debt (including interest of \$5.1 million) .....	\$68,069	\$3,732	\$64,337	\$ —	\$ —
Ground Leases.....	9,140	335	686	701	7,418
Total Commercial Commitments.....	<u>\$77,209</u>	<u>\$4,067</u>	<u>\$65,023</u>	<u>\$701</u>	<u>\$7,418</u>

The Company has a \$60 million unsecured credit facility with a commercial bank, that is utilized for working capital, hotel renovations, and other general corporate funding purposes, including the payment of redemptions and distributions. The Company refinanced the credit facility in September 2011 with its existing lender. The outstanding principle is required to be paid by the maturity date of September 8, 2013 and may be prepaid without penalty. Interest payments are due monthly and the applicable interest rate is equal to the applicable LIBOR (the London Interbank Offered Rate) plus 3.5%. The LIBOR floor under the previous agreement was removed, therefore reducing the Company's effective interest rate. The credit facility also has an unused fee of 0.35% if the average outstanding quarterly balance is greater than \$30 million and 0.5% if the average outstanding quarterly balance is less than \$30 million. With the availability of this credit facility, the Company maintains little cash on hand, accessing the facility as necessary. As a result, cash on hand was \$32,000 and \$0 at December 31, 2011 and 2010, respectively. The outstanding balance on the credit facility as



of December 31, 2011 and 2010 was \$43.7 million and \$39.6 million and its interest rate was 3.82% and 5%, respectively. The credit facility has two primary financial covenants, which are: a) at the end of each calendar quarter, the shareholder payout ratio, as defined in the loan documents, cannot exceed the Company's funds from operations for the immediately preceding twelve month period, which is 105% through December 31, 2012 and 100% thereafter, and b) the Company must maintain a minimum net worth, as defined in the loan documents, greater than \$500 million at all times. The Company was in compliance with each of these covenants at December 31, 2011.

Operating cash flow from the properties owned and the \$60 million credit facility are the Company's principal sources of liquidity. The Company anticipates that cash flow from operations and the credit facility will be adequate to meet its anticipated liquidity requirements, including debt service, capital improvements, required distributions to shareholders (the Company is not required to make distributions at its current rate for REIT purposes), and planned Unit redemptions. The Company intends to maintain a relatively stable distribution rate with varying economic cycles. If cash flow from operations and the credit facility are not adequate to meet liquidity requirements, the Company will attempt if necessary to utilize additional financing to achieve this objective. Although the Company has relatively low levels of debt, there can be no assurances it will be successful with this strategy and may need to reduce its distributions to required levels. If the Company were unable to extend its maturing debt in future periods or if it were to default on its debt, it may be unable to make distributions or redemptions. The Company's bylaws require board approval and review of any debt financing obtained by the Company.

To maintain its REIT status the Company is required to distribute at least 90% of its ordinary income. The Company's objective in setting a distribution rate is to project a rate that will provide consistency over the life of the Company, taking into account acquisitions and capital improvements, ramp up of new properties and varying economic cycles. Distributions in 2011 totaled \$71.2 million and were paid monthly at a rate of \$0.066 per common share beginning in July 2011, and \$0.064 per common share prior to that date. For the same period the Company's cash generated from operations was \$78.1 million. The Company intends to continue paying distributions on a monthly basis. However, since there can be no assurance of the ability of the Company's properties to provide income at this level, there can be no assurance as to the classification or duration of distributions at the current rate. The Board of Directors monitors the Company's distribution rate relative to the performance of the hotels on an ongoing basis and may make adjustments to the distribution rate as determined to be prudent in relation to other cash requirements of the Company. In January 2010 the Board of Directors reduced the Company's annual distribution rate from \$0.90 to \$0.77 per common share. The reduction was effective March 2010. With the operational improvements, the Board of Directors increased the annual distribution rate to \$0.79 in June 2011 and is payable monthly. The new distribution rate was effective with the July 2011 distribution.

The Company has on-going capital commitments to fund its capital improvements. The Company is required, under all of the hotel management agreements and under certain loan agreements, to make available, for the repair, replacement, and refurbishing of furniture, fixtures, and equipment, a percentage of gross revenues provided that such amount may be used for the Company's capital expenditures with respect to the hotels. The Company expects that this amount will be adequate to fund required repair, replacement, and refurbishments and to maintain the Company's hotels in a competitive condition. The Company invested approximately \$14.1 million in capital expenditures in 2011. The Company anticipates expenditures of approximately \$18 to \$20 million in 2012 in connection with renovations and brand initiatives. The Company currently does not have any existing or planned projects for new development.

The Company has a Unit Redemption Program to provide limited interim liquidity to its shareholders who have held their Units for at least one year. Shareholders may request redemption of Units for a purchase price equal to the lesser of: (1) the purchase price per Unit that the shareholder actually paid for the Unit; or (2) \$11.00 per Unit. The Company reserves the right to change the purchase price of redemptions, reject any request for redemption, or otherwise amend the terms of, suspend, or terminate the Unit Redemption Program. As noted below, during 2011, the total redemption requests exceeded the authorized amount of redemptions and the Board of Directors has and will continue to limit the amount of redemptions as it deems prudent. Since inception of the program through December 31, 2011, the Company has redeemed approximately 16.6 million Units representing \$182.4 million, including 2.8 million Units in the amount of \$30.2 million in 2011 and 2.8 million Units in the amount of \$30.4 million in 2010. As contemplated in the program, beginning with the July 2011 redemption, the scheduled redemption date for the third quarter of 2011, the Company redeemed

Units on a pro-rata basis. Prior to July 2011, the Company redeemed 100% of redemption requests. The following is a summary of the 2011 Unit redemptions:

<b>Redemption Date</b>	<b>Requested Unit Redemptions</b>	<b>Units Redeemed</b>	<b>Redemption Requests not Redeemed</b>
January 2011	606,064	606,064	0
April 2011	683,427	683,427	0
July 2011	4,412,066	737,284	3,674,782
October 2011	9,878,351	726,613	9,151,738

Currently, the Company plans to redeem under its Unit Redemption Program approximately 2% of weighted average Units during 2012.

In February 2006, the Company instituted a Dividend Reinvestment Plan for its shareholders. The plan provides a way to increase shareholder investment in the Company by reinvesting dividends to purchase additional Units of the Company. The uses of the proceeds from this plan may include purchasing Units under the Company's Unit Redemption Program, enhancing properties, satisfying financing obligations and other expenses, increasing working capital, funding various corporate operations, and acquiring hotels. The Company has registered 20.0 million Units for potential issuance under the plan. As of December 31, 2011, approximately 16.7 million Units, representing \$183.6 million in proceeds to the Company, have been issued under the plan, including 2.5 million Units representing \$27.1 million issued in 2011 and 2.8 million Units representing \$30.5 million issued in 2010.

### ***Impact of Inflation***

Operators of hotels, in general, possess the ability to adjust room rates daily to reflect the effects of inflation. Competitive pressures may, however, limit the operators' ability to raise room rates. Currently the Company is not experiencing any material impact from inflation.

### ***Business Interruption***

Being in the real estate industry, the Company is exposed to natural disasters on both a local and national scale. Although management believes there is adequate insurance to cover this exposure, there can be no assurance that such events will not have a material adverse effect on the Company's financial position or results of operations.

### ***Seasonality***

The hotel industry historically has been seasonal in nature. Seasonal variations in occupancy at the Company's hotels may cause quarterly fluctuations in its revenues. To the extent that cash flow from operations is insufficient during any quarter, due to temporary or seasonal fluctuations in revenue, the Company expects to utilize cash on hand or if necessary any available other financing sources to make distributions.

### ***Critical Accounting Policies***

The following contains a discussion of what the Company believes to be critical accounting policies. These items should be read to gain a further understanding of the principles used to prepare the Company's financial statements. These principles include application of judgment; therefore, changes in judgments may have a significant impact on the Company's reported results of operations and financial condition.

#### ***Capitalization Policy***

The Company considers expenditures to be capital in nature based on the following criteria: (1) for a single asset, the cost must be at least \$500, including all normal and necessary costs to place the asset in service, and the useful life must be at least one year; (2) for group purchases of 10 or more identical assets, the unit cost for each asset must be at least \$50, including all normal and necessary costs to place the asset in

service, and the useful life must be at least one year; and (3) for major repairs to a single asset, the repair must be at least \$2,500 and the useful life of the asset must be substantially extended.

#### *Impairment Losses Policy*

The Company records impairment losses on hotel properties used in operations if indicators of impairment are present, and the sum of the undiscounted cash flows estimated to be generated by the respective properties over their estimated remaining useful life, based on historical and industry data, is less than the properties' carrying amount. Indicators of impairment include a property with current or potential losses from operations, when it becomes more likely than not that a property will be sold before the end of its previously estimated useful life or when events, trends, contingencies or changes in circumstances indicate that a triggering event has occurred and an asset's carrying value may not be recoverable. The Company monitors its properties on an ongoing basis by analytically reviewing financial performance and considers each property individually for purposes of reviewing for indicators of impairment. As many indicators of impairment are subjective, such as general economic and market declines, the Company also prepares an annual recoverability analysis for each of its properties to assist with its evaluation of impairment indicators. The analysis compares each property's net book value to each property's estimated operating income using current operating results for each stabilized property and projected stabilized operating results based on the property's market for properties that recently opened, were recently renovated or experienced other short-term business disruption. Since the Company's planned initial hold period for each property is 39 years the Company's ongoing analysis and annual recoverability analysis have not identified any impairment losses and no impairment losses have been recorded to date other than the impairment on properties held for sale discussed below. If events or circumstances change such as the Company's intended hold period for a property or if the operating performance of a property declines substantially for an extended period of time, the Company's carrying value for a particular property may not be recoverable and an impairment loss will be recorded. Impairment losses are measured as the difference between the asset's fair value and its carrying value. In connection with the decision to sell its two hotels in Tempe, Arizona, the Company recorded an impairment charge of approximately \$3.6 million which represented the difference between the net book value and the fair value less cost to sell. No additional gain or loss was incurred by the Company upon the completion of the sale of the two properties in June 2011.

#### *Subsequent Events*

In January 2012, the Company declared and paid approximately \$6.0 million or \$0.066 per common share, in distributions to its common shareholders, of which approximately \$1.8 million or 166,000 Units were reinvested under the Company's Dividend Reinvestment Plan.

In January 2012, under the guidelines of the Company's Unit Redemption Program, the Company redeemed approximately 460,000 Units in the amount of \$5.1 million. As contemplated in the Program, the Company redeemed Units on a pro-rata basis, whereby a percentage of each requested redemption was fulfilled at the discretion of the Company's Board of Directors. A total of approximately 11.6 million shares were requested to be redeemed. This redemption was approximately 4% of the requested redemption amount with approximately 11.1 million requested Units not redeemed.

In February 2012, the Company declared and paid approximately \$6.0 million or \$0.066 per common share, in distributions to its common shareholders, of which approximately \$1.8 million or 163,000 Units were reinvested under the Company's Dividend Reinvestment Plan.

#### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

The Company does not engage in transactions in derivative financial instruments or derivative commodity instruments. As of December 31, 2011, the Company's financial instruments were not exposed to significant market risk due to foreign currency exchange risk, commodity price risk or equity price risk. The Company will be exposed to interest rate risk due to possible changes in short term interest rates as it invests its cash, or borrows on its credit facility. Based on the balance of the Company's credit facility at December 31, 2011, of \$43.7 million, every 100 basis points change in interest rates could impact the Company's net income by \$437,000, all other factors remaining the same. The Company's cash balance at December 31, 2011 was \$32,000.

In addition to its \$43.7 million outstanding balance under its credit facility at December 31, 2011 (the credit facility's interest rate at December 31, 2011 was 3.82%), which is included in the table below as due in 2013, the Company has assumed fixed interest rate notes payable to lenders under permanent financing arrangements. The following table summarizes the annual maturities and average interest rates of the Company's notes payable outstanding at December 31, 2011.

<u>(000's)</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Thereafter</u>	<u>Total</u>	<u>Fair Market Value</u>
Maturities.....	\$755	\$56,712	\$5,528	\$—	\$—	\$—	\$62,995	\$63,977
Average Interest Rate .....	4.7%	4.6%	6.4%	—	—	—		



**Item 8. Financial Statements and Supplementary Data**

**REPORT OF MANAGEMENT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

March 12, 2012

To the Shareholders

APPLE REIT SIX, INC.

Management of Apple REIT Six, Inc. (the “Company”) is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. As defined by the Securities and Exchange Commission, internal control over financial reporting is a process designed by, or under the supervision of the Company’s principal executive and principal financial officers and effected by the Company’s Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles.

The Company’s internal control over financial reporting is supported by written policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the Company’s transactions and dispositions of the Company’s assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the consolidated financial statements in accordance with generally accepted accounting principles, and the receipts and expenditures of the Company are being made only in accordance with authorizations of the Company’s management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In connection with the preparation of the Company’s annual consolidated financial statements, management has undertaken an assessment of the effectiveness of the Company’s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO Framework). Management’s assessment included an evaluation of the design of the Company’s internal control over financial reporting and testing of the operational effectiveness of those controls.

Based on this assessment, management has concluded that as of December 31, 2011, the Company’s internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Ernst & Young LLP, the independent registered public accounting firm that audited the Company’s consolidated financial statements included in this report, has issued an attestation report on the Company’s internal control over financial reporting, a copy of which appears on the next page of this annual report.

/s/ GLADE M. KNIGHT

**Glade M. Knight**  
Chairman and Chief Executive Officer

/s/ BRYAN PEERY

**Bryan Peery**  
Chief Financial Officer  
(Principal Accounting Officer)

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The Board of Directors and Shareholders of  
APPLE REIT SIX, INC.

We have audited Apple REIT Six, Inc.'s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Apple REIT Six, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Apple REIT Six, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2011 consolidated financial statements of Apple REIT Six, Inc. and our report dated March 12, 2012 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Richmond, Virginia  
March 12, 2012

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders of  
APPLE REIT SIX, INC.

We have audited the accompanying consolidated balance sheets of Apple REIT Six, Inc. as of December 31, 2011 and 2010, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2011. Our audits also included the financial statement schedule listed in the Index at Item 15(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Apple REIT Six, Inc. at December 31, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Apple REIT Six, Inc.'s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 12, 2012 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Richmond, Virginia  
March 12, 2012

**APPLE REIT SIX, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share data)

	<b>As of December 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Assets</b>		
Investment in real estate, net of accumulated depreciation of \$185,860 and \$153,452, respectively .....	\$ 746,354	\$ 764,557
Hotels held for sale .....	0	10,755
Cash and cash equivalents.....	32	0
Restricted cash-furniture, fixtures and other escrows .....	3,570	4,344
Due from third party manager, net.....	6,598	5,935
Other assets, net .....	2,811	2,622
<b>Total Assets</b> .....	<b>\$ 759,365</b>	<b>\$ 788,213</b>
<b>Liabilities</b>		
Credit facility.....	\$ 43,690	\$ 39,551
Mortgage debt.....	19,377	24,185
Accounts payable and accrued expenses.....	5,670	4,706
<b>Total Liabilities</b> .....	<b>68,737</b>	<b>68,442</b>
<b>Shareholders' Equity</b>		
Preferred stock, authorized 15,000,000 shares; none issued and outstanding .....	0	0
Series A preferred stock, no par value, authorized 200,000,000 shares; issued and outstanding 91,181,198 and 91,473,791 shares, respectively .....	0	0
Series B convertible preferred stock, no par value, authorized 240,000 shares; issued and outstanding 240,000 shares, respectively .....	24	24
Common stock, no par value, authorized 200,000,000 shares; issued and outstanding 91,181,198 and 91,473,791 shares, respectively .....	899,345	902,402
Distributions greater than net income .....	(208,741)	(182,655)
<b>Total Shareholders' Equity</b> .....	<b>690,628</b>	<b>719,771</b>
<b>Total Liabilities and Shareholders' Equity</b> .....	<b>\$ 759,365</b>	<b>\$ 788,213</b>

See notes to consolidated financial statements.



**APPLE REIT SIX, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in thousands, except per share data)

	<b>Years Ended December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
Revenues:			
Room revenue .....	\$220,227	\$206,624	\$195,671
Other revenue.....	16,553	14,634	14,753
Reimbursed expenses.....	7,241	6,055	5,899
Total revenue.....	244,021	227,313	216,323
Expenses:			
Operating expense .....	61,257	58,443	55,798
Hotel administrative expense.....	19,241	18,405	18,219
Sales and marketing.....	18,967	17,381	16,946
Utilities .....	9,801	9,602	9,547
Repair and maintenance .....	10,827	10,801	10,243
Franchise fees.....	9,936	9,286	8,781
Management fees.....	7,957	6,978	6,586
Taxes, insurance and other.....	12,133	12,143	13,248
General and administrative.....	6,151	6,072	4,935
Reimbursed expenses.....	7,241	6,055	5,899
Depreciation expense.....	32,432	30,806	30,417
Total expenses.....	195,943	185,972	180,619
Operating income .....	48,078	41,341	35,704
Interest expense, net .....	(3,617)	(3,800)	(2,312)
Income from continuing operations .....	44,461	37,541	33,392
Income (loss) from discontinued operations.....	700	(3,157)	(13)
Net income .....	<u>\$ 45,161</u>	<u>\$ 34,384</u>	<u>\$ 33,379</u>
Basic and diluted net income (loss) per common share			
From continuing operations .....	\$ 0.48	\$ 0.41	\$ 0.37
From discontinued operations .....	0.01	(0.03)	0
Total basic and diluted net income per common share .....	<u>\$ 0.49</u>	<u>\$ 0.38</u>	<u>\$ 0.37</u>
Weighted average common shares outstanding—basic and diluted .....	91,254	91,323	91,178

See notes to consolidated financial statements.

**APPLE REIT SIX, INC.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
(in thousands, except per share data)

	<b>Common Stock</b>		<b>Series B Convertible Preferred Stock</b>		<b>Distributions Greater than Net income</b>	<b>Total Shareholders' Equity</b>
	<b>Number of Shares</b>	<b>Amount</b>	<b>Number of Shares</b>	<b>Amount</b>		
<b>Balance at December 31, 2008</b> .....	91,762	\$905,260	240	\$24	\$ (95,902)	\$809,382
Net proceeds from the sale of common shares.....	3,190	35,027	0	0	0	35,027
Stock options granted.....	0	91	0	0	0	91
Common shares redeemed.....	(3,480)	(38,176)	0	0	0	(38,176)
Net income .....	0	0	0	0	33,379	33,379
Cash distributions declared and paid to shareholders (\$.90 per share) .....	0	0	0	0	(82,215)	(82,215)
<b>Balance at December 31, 2009</b> .....	91,472	902,202	240	24	(144,738)	757,488
Net proceeds from the sale of common shares.....	2,770	30,467	0	0	0	30,467
Stock options granted.....	0	115	0	0	0	115
Common shares redeemed.....	(2,768)	(30,382)	0	0	0	(30,382)
Net income .....	0	0	0	0	34,384	34,384
Cash distributions declared and paid to shareholders (\$.79 per share) .....	0	0	0	0	(72,301)	(72,301)
<b>Balance at December 31, 2010</b> .....	91,474	902,402	240	24	(182,655)	719,771
Net proceeds from the sale of common shares.....	2,461	27,069	0	0	0	27,069
Stock options granted.....	0	111	0	0	0	111
Common shares redeemed.....	(2,754)	(30,237)	0	0	0	(30,237)
Net income .....	0	0	0	0	45,161	45,161
Cash distributions declared and paid to shareholders (\$.78 per share) .....	0	0	0	0	(71,247)	(71,247)
<b>Balance at December 31, 2011</b> .....	<u>91,181</u>	<u>\$899,345</u>	<u>240</u>	<u>\$24</u>	<u>\$(208,741)</u>	<u>\$690,628</u>

See notes to consolidated financial statements.

**APPLE REIT SIX, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)

	<b>Years Ended December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Cash flow from operating activities:</b>			
Net income .....	\$ 45,161	\$ 34,384	\$ 33,379
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation, including discontinued operations .....	32,432	31,199	30,938
Loss on hotels held for sale .....	0	3,567	0
Amortization of deferred financing costs, fair value adjustments and other non-cash expenses, net .....	513	1,119	560
Changes in operating assets and liabilities:			
Decrease (increase) in due from third party managers, net .....	(663)	396	1,473
Decrease (increase) in other assets, net .....	(188)	(90)	207
Increase (decrease) in accounts payable and accrued expenses .....	883	381	(528)
Net cash provided by operating activities .....	78,138	70,956	66,029
<b>Cash flow from investing activities:</b>			
Capital improvements .....	(14,148)	(8,163)	(9,155)
Proceeds for sale of assets, net .....	10,755	0	0
Redemption of investment interest in non-hotel assets .....	0	0	3,240
Net decrease (increase) in cash restricted for property improvements .....	773	127	(656)
Other investing activities, net .....	(101)	(469)	0
Net cash used in investing activities .....	(2,721)	(8,505)	(6,571)
<b>Cash flow from financing activities:</b>			
Net proceeds from credit facility .....	4,139	13,612	25,940
Payments of mortgage debt .....	(4,692)	(3,704)	(791)
Payment of financing costs related to borrowings .....	(417)	(143)	(178)
Net proceeds from issuance of Units .....	27,069	30,467	35,027
Redemptions of Units .....	(30,237)	(30,382)	(38,176)
Distributions paid to common shareholders .....	(71,247)	(72,301)	(82,215)
Net cash used in financing activities .....	(75,385)	(62,451)	(60,393)
Net change in cash and cash equivalents .....	32	0	(935)
Cash and cash equivalents, beginning of period .....	0	0	935
Cash and cash equivalents, end of period .....	<u>\$ 32</u>	<u>\$ 0</u>	<u>\$ 0</u>
<b>Supplemental information:</b>			
Interest paid .....	<u>\$ 3,720</u>	<u>\$ 3,795</u>	<u>\$ 2,590</u>

See notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 1

#### General Information and Summary of Significant Accounting Policies

##### *Organization*

Apple REIT Six, Inc., together with its wholly owned subsidiaries (the “Company”), is a Virginia corporation formed to invest in income-producing real estate in the United States. Initial capitalization occurred on January 20, 2004 and operations began on May 28, 2004 when the Company acquired its first hotel. The Company concluded its best-efforts offering of Units (each Unit consists of one common share and one Series A preferred share) in March 2006. The Company’s fiscal year end is December 31. As of December 31, 2011 the Company owned 66 hotels. The Company has no foreign operations or assets and its operating structure includes only one segment. The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany accounts and transactions have been eliminated.

The Company has elected to be treated as a real estate investment trust (“REIT”) for federal income tax purposes. The REIT Modernization Act, effective January 1, 2001, permits real estate investment trusts to establish taxable businesses to conduct certain previously disallowed business activities. The Company has a wholly-owned taxable REIT subsidiary (or subsidiary thereof) (collectively, the “Lessee”), which leases all of the Company’s hotels.

##### *Cash and Cash Equivalents*

Cash and cash equivalents include highly liquid investments with original maturities of three months or less. The fair market value of cash and cash equivalents approximates their carrying value. Cash balances may at times exceed federal depository insurance limits.

##### *Restricted cash*

Restricted cash includes reserves for debt service, real estate taxes, and insurance and reserves for furniture, fixtures, and equipment replacements of up to 5% of property revenue for certain hotels, as required by certain management or mortgage debt agreement restrictions and provisions.

##### *Investment in Hotels and Related Depreciation*

The hotels are stated at cost, net of depreciation, and include real estate brokerage commissions paid to Apple Six Realty Group, Inc. (“A6RG”), a related party 100% owned by Glade M. Knight, Chairman and Chief Executive Officer of the Company. Repair and maintenance costs are expensed as incurred while significant improvements, renovations, and replacements are capitalized. Depreciation is computed using the straight-line method over estimated useful lives of the assets, which are 39 years for buildings, 17 years for franchise fees, ten years for major improvements and three to seven years for furniture and equipment.

The Company considers expenditures to be capital in nature based on the following criteria: (1) for a single asset, the cost must be at least \$500, including all normal and necessary costs to place the asset in service, and the useful life must be at least one year; (2) for group purchases of 10 or more identical assets, the unit cost for each asset must be at least \$50, including all normal and necessary costs to place the asset in service, and the useful life must be at least one year; and (3) for major repairs to a single asset, the repair must be at least \$2,500 and the useful life of the asset must be substantially extended.

The Company records impairment losses on hotel properties used in operations if indicators of impairment are present, and the sum of the undiscounted cash flows estimated to be generated by the respective properties over their estimated remaining useful life, based on historical and industry data, is less than the properties’ carrying amount. Indicators of impairment include a property with current or potential losses from operations, when it becomes more likely than not that a property will be sold before the end of its previously estimated useful life or when events, trends, contingencies or changes in circumstances indicate that a triggering event has occurred and an asset’s carrying value may not be recoverable. The Company monitors its properties on an ongoing basis by analytically reviewing financial performance and considers each property individually for purposes of reviewing for indicators of impairment. As many indicators of impairment are subjective, such as

general economic and market declines, the Company also prepares an annual recoverability analysis for each of its properties to assist with its evaluation of impairment indicators. The analysis compares each property's net book value to each property's estimated operating income using current operating results for each stabilized property and projected stabilized operating results based on the property's market for properties that recently opened, were recently renovated or experienced other short-term business disruption. Since the Company's planned initial hold period for each property is 39 years the Company's ongoing analysis and annual recoverability analysis have not identified any impairment losses and no impairment losses have been recorded to date other than the impairment on properties held for sale discussed below. If events or circumstances change such as the Company's intended hold period for a property or if the operating performance of a property declines substantially for an extended period of time, the Company's carrying value for a particular property may not be recoverable and an impairment loss will be recorded. Impairment losses are measured as the difference between the asset's fair value and its carrying value. In connection with the decision to sell its two hotels in Tempe, Arizona, the Company recorded an impairment charge of approximately \$3.6 million which represented the difference between the net book value and the fair value less cost to sell. No additional gain or loss was incurred by the Company upon the completion of the sale of the two properties in June 2011.

#### *Revenue Recognition*

Revenue is recognized as earned, which is generally defined as the date upon which a guest occupies a room or utilizes the hotel's services.

#### *Comprehensive Income*

The Company recorded no comprehensive income other than net income for the periods reported.

#### *Earnings Per Common Share*

Basic earnings per common share is computed based upon the weighted average number of shares outstanding during the year. Diluted earnings per common share are calculated after giving effect to all potential common shares that were dilutive and outstanding for the year. There were no potential common shares with a dilutive effect for the years ended December 31, 2011, 2010 and 2009. As a result, basic and dilutive outstanding shares were the same. Series B convertible preferred shares are not included in earnings per common share calculations until such time that such shares are eligible to be converted to common shares.

#### *Federal Income Taxes*

The Company is operated as, and has elected to be taxed as, a REIT under Sections 856 to 860 of the Internal Revenue Code. Earnings and profits, which will determine the taxability of distributions to shareholders, will differ from income reported for financial reporting purposes primarily due to the differences for federal income tax purposes in the estimated useful lives used to compute depreciation. The characterization of 2011 distributions of \$0.78 per common share for tax purposes was 80% ordinary income and 20% return of capital, 2010 distributions of \$0.79 per common share for tax purposes was 75% ordinary income and 25% return of capital, and 2009 distributions of \$0.90 per common share for tax purposes was 62% ordinary income and 38% return of capital.

The Lessee, as a taxable REIT subsidiary of the Company, is subject to federal and state income taxes. The taxable REIT subsidiary incurred a loss for the years ended December 31, 2011, 2010 and 2009, and therefore did not have any federal tax expense. No operating loss benefit has been recorded in the Consolidated Balance Sheet since realization is uncertain. Total net operating loss carry forward for federal income tax purposes was approximately \$57 million as of December, 31, 2011. The net operating losses expire beginning in 2024. There are no material differences between the book and tax cost basis of the Company's assets.

As of December 31, 2011, the tax years that remain subject to examination by major tax jurisdictions generally include 2008 to 2011.



### *Sales and Marketing Costs*

Sales and marketing costs are expensed when incurred. These costs represent the expense for franchise advertising and reservation systems under the terms of the hotel management and franchise agreements and general and administrative expenses that are directly attributable to advertising and promotion.

### *Use of Estimates*

The preparation of financial statements in accordance with United States generally accepted accounting principles requires management to make certain estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

## **Note 2**

### **Investment in Real Estate**

As of December 31, 2011, the Company owned 66 hotels located in 18 states with an aggregate of 7,658 rooms consisting of the following:

<u>Brand</u>	<u>Total by Brand</u>	<u>Number of Rooms</u>
Hilton Garden Inn .....	14	1,793
Residence Inn .....	10	1,247
Courtyard .....	10	993
SpringHill Suites .....	7	738
Homewood Suites .....	6	713
TownePlace Suites .....	5	647
Fairfield Inn .....	5	351
Hampton Inn .....	4	454
Hampton Inn & Suites .....	3	303
Marriott .....	2	419
Total .....	<u>66</u>	<u>7,658</u>

Investment in real estate consisted of the following (in thousands):

	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Land .....	\$ 107,139	\$ 106,837
Building and Improvements .....	746,486	740,820
Furniture, Fixtures and Equipment .....	75,546	67,309
Franchise Fees .....	3,043	3,043
	<u>932,214</u>	<u>918,009</u>
Less Accumulated Depreciation .....	(185,860)	(153,452)
Investment in Real Estate, net .....	<u>\$ 746,354</u>	<u>\$ 764,557</u>

The following table summarizes the location, brand, manager, date acquired, number of rooms and gross purchase price for each of the 66 hotels the Company owned as of December 31, 2011. All dollar amounts are in thousands.

<u>City</u>	<u>State</u>	<u>Brand</u>	<u>Manager</u>	<u>Date Acquired</u>	<u>Rooms</u>	<u>Gross Purchase Price</u>
Ft. Worth .....	Texas	SpringHill Suites	Marriott	5/28/04	145	\$ 13,340
Myrtle Beach .....	South Carolina	Courtyard	Marriott	6/8/04	135	9,200
Redmond .....	Washington	Marriott	Marriott	7/7/04	262	64,000
Anchorage .....	Alaska	Hilton Garden Inn	Stonebridge	10/12/04	125	18,900
Anchorage .....	Alaska	Homewood Suites	Stonebridge	10/12/04	122	13,200
Arcadia .....	California	Hilton Garden Inn	Stonebridge	10/12/04	124	12,000
Arcadia .....	California	SpringHill Suites	Stonebridge	10/12/04	86	8,100

<u>City</u>	<u>State</u>	<u>Brand</u>	<u>Manager</u>	<u>Date Acquired</u>	<u>Rooms</u>	<u>Gross Purchase Price</u>
Glendale .....	Colorado	Hampton Inn & Suites	Stonebridge	10/12/04	133	14,700
Lakewood.....	Colorado	Hampton Inn	Stonebridge	10/12/04	170	10,600
Lake Forest.....	California	Hilton Garden Inn	Stonebridge	10/12/04	103	11,400
Phoenix .....	Arizona	Hampton Inn	Stonebridge	10/12/04	99	6,700
Anchorage .....	Alaska	Hampton Inn	Stonebridge	3/14/05	101	11,500
Bakersfield.....	California	Hilton Garden Inn	Hilton	3/18/05	120	11,500
Tallahassee.....	Florida	Hilton Garden Inn	Hilton	3/18/05	99	10,850
Lake Mary.....	Florida	Courtyard	LBA	3/18/05	86	6,000
Foothill Ranch....	California	Hampton Inn	Stonebridge	4/21/05	84	7,400
Ft. Worth .....	Texas	Residence Inn	Western	5/6/05	149	17,000
Boulder.....	Colorado	Marriott	White	5/9/05	157	30,000
Ft. Worth .....	Texas	Homewood Suites	Hilton	5/24/05	137	9,097
Nashville.....	Tennessee	Homewood Suites	Hilton	5/24/05	121	8,103
Albany.....	Georgia	Courtyard	LBA	6/24/05	84	8,597
Lakeland.....	Florida	Residence Inn	LBA	6/24/05	78	9,886
Huntsville.....	Alabama	Residence Inn	LBA	6/24/05	78	8,288
Dothan.....	Alabama	Hampton Inn & Suites	LBA	6/24/05	85	8,673
Columbus.....	Georgia	Residence Inn	LBA	6/24/05	78	7,888
Las Colinas .....	Texas	TownePlace Suites	Western	6/30/05	136	7,178
Arlington .....	Texas	TownePlace Suites	Western	6/30/05	95	7,148
Arlington .....	Texas	SpringHill Suites	Western	6/30/05	122	7,486
Wallingford .....	Connecticut	Homewood Suites	White	7/8/05	104	12,780
McAllen .....	Texas	Hilton Garden Inn	Western	7/19/05	104	9,000
Pensacola .....	Florida	Hampton Inn & Suites	LBA	7/21/05	85	9,279
Rocky Hill .....	Connecticut	Residence Inn	White	8/1/05	96	12,070
Dothan.....	Alabama	Courtyard	LBA	8/11/05	78	8,016
Somerset.....	New Jersey	Homewood Suites	White	8/17/05	123	17,750
Birmingham.....	Alabama	Fairfield Inn	LBA	8/25/05	63	2,176
Tuscaloosa .....	Alabama	Courtyard	LBA	8/25/05	78	7,551
Tuscaloosa .....	Alabama	Fairfield Inn	LBA	8/25/05	63	3,982
Pensacola .....	Florida	Courtyard	LBA	8/25/05	90	11,369
Pensacola .....	Florida	Fairfield Inn	LBA	8/25/05	63	4,858
Pittsburgh.....	Pennsylvania	Residence Inn	White	9/2/05	156	11,000
Laredo .....	Texas	Residence Inn	Western	9/12/05	109	11,445
Mt. Olive .....	New Jersey	Residence Inn	White	9/15/05	123	12,070
Saratoga Springs..	New York	Hilton Garden Inn	White	9/29/05	112	17,750
Huntsville.....	Alabama	Fairfield Inn	LBA	9/30/05	79	4,954
Savannah .....	Georgia	SpringHill Suites	LBA	9/30/05	79	5,407
Montgomery .....	Alabama	SpringHill Suites	LBA	9/30/05	79	6,835
Valdosta .....	Georgia	Courtyard	LBA	10/3/05	84	8,284
Farmington .....	Connecticut	Courtyard	White	10/20/05	119	16,330
Orange Park .....	Florida	Fairfield Inn	LBA	11/8/05	83	7,221
Folsom.....	California	Hilton Garden Inn	Inn Ventures	11/30/05	100	18,028
Milpitas .....	California	Hilton Garden Inn	Inn Ventures	11/30/05	161	18,600
Roseville.....	California	Hilton Garden Inn	Inn Ventures	11/30/05	131	20,759
Renton.....	Washington	Hilton Garden Inn	Inn Ventures	11/30/05	150	16,096
Laredo .....	Texas	Homewood Suites	Western	11/30/05	106	10,500
Dallas.....	Texas	SpringHill Suites	Western	12/9/05	148	19,500
Hillsboro.....	Oregon	TownePlace Suites	Inn Ventures	12/19/05	136	11,500
Kent .....	Washington	TownePlace Suites	Inn Ventures	12/19/05	152	12,000
Mukilteo.....	Washington	TownePlace Suites	Inn Ventures	12/19/05	128	12,000
Portland .....	Oregon	Residence Inn	Inn Ventures	12/19/05	258	42,000
Fredericksburg ....	Virginia	Hilton Garden Inn	Hilton	12/20/05	148	16,600
San Francisco .....	California	Hilton Garden Inn	White	1/30/06	169	12,266

City	State	Brand	Manager	Date Acquired	Rooms	Gross Purchase Price
Clearwater .....	Florida	SpringHill Suites	LBA	2/17/06	79	6,923
Hillsboro.....	Oregon	Residence Inn	Inn Ventures	3/9/06	122	15,500
Hillsboro.....	Oregon	Courtyard	Inn Ventures	3/9/06	155	11,000
Panama City .....	Florida	Courtyard	LBA	4/26/06	84	9,245
Roanoke Rapids ..	North Carolina	Hilton Garden Inn	Newport	3/10/08	147	17,764
Total .....					<u>7,658</u>	<u>\$829,142</u>

### Note 3

#### Credit Facility and Notes Payable

The Company has a \$60 million unsecured credit facility with a commercial bank, that is utilized for working capital, hotel renovations, and other general corporate funding purposes, including the payment of redemptions and distributions. The Company refinanced the credit facility in September 2011 with its existing lender. The outstanding principle is required to be paid by the maturity date of September 8, 2013 and may be prepaid without penalty. Interest payments are due monthly and the applicable interest rate is equal to the applicable LIBOR (the London Interbank Offered Rate) plus 3.5%. The LIBOR floor under the previous agreement was removed, therefore reducing the Company's effective interest rate. The credit facility also has an unused fee of 0.35% if the average outstanding quarterly balance is greater than \$30 million and 0.5% if the average outstanding quarterly balance is less than \$30 million. The outstanding balance on the credit facility as of December 31, 2011 and 2010 was \$43.7 million and \$39.6 million and its interest rate was 3.82% and 5%, respectively. The credit facility has two primary financial covenants, which are: a) at the end of each calendar quarter, the shareholder payout ratio, as defined in the loan documents, cannot exceed the Company's funds from operations for the immediately preceding twelve month period, which is 105% through December 31, 2012 and 100% thereafter, and b) the Company must maintain a minimum net worth, as defined in the loan documents, greater than \$500 million at all times. The Company was in compliance with each of these covenants at December 31, 2011.

The Company also assumed approximately \$54.1 million of debt secured by a first mortgage on 14 of its properties. The Company paid and extinguished seven of these mortgages in 2008, one in 2010 and one in 2011. The following table summarizes the hotel, interest rate, maturity date and the principal amount assumed associated with each of the outstanding mortgages. All dollar amounts are in thousands.

Location	Brand	Rate	Maturity Date	Principal Assumed	Outstanding balance as of Dec. 31, 2011	Outstanding balance as of Dec. 31, 2010
Glendale, CO.....	Hampton Inn & Suites	6.93%	1/01/13	\$ 6,603	\$ 4,930	\$ 5,216
Foothill Ranch, CA.....	Hampton Inn	8.06%	(1)	4,502	—	3,984
Huntsville, AL.....	Fairfield Inn	6.80%	1/11/13	3,028	2,605	2,685
Savannah, GA.....	SpringHill Suites	6.80%	1/11/13	3,066	2,637	2,719
Montgomery, AL.....	SpringHill Suites	6.80%	1/11/13	3,785	3,256	3,357
Hillsboro, OR .....	Courtyard	6.40%	12/11/14	6,663	5,877	6,036
Total.....				<u>\$27,647</u>	<u>\$19,305</u>	<u>\$23,997</u>

(1) Note was extinguished in April 2011 and was paid using proceeds from the Company's credit facility.

The aggregate amounts of principal payable under the Company's debt obligations, for the five years subsequent to December 31, 2011 are as follows (in thousands):

	<u>Total</u>
2012.....	\$ 755
2013.....	56,712
2014.....	5,528
2015.....	—
2016.....	—
	<u>62,995</u>
Fair Value Adjustment of Assumed Debt.....	<u>72</u>
Total.....	<u><u>\$63,067</u></u>

Fair value adjustments were recorded in connection with the assumption of the above market rate debt in connection with the hotel acquisitions. These premiums are amortized into interest expense over the remaining term of the related indebtedness using the effective interest rate method. The effective rates range from 5.85% to 5.88%. The unamortized balances at December 31, 2011 and 2010 were \$0.1 million and \$0.2 million, respectively.

The Company estimates the fair value of its debt by discounting the future cash flows of each instrument at estimated market rates consistent with the maturity of the debt obligation with similar credit terms and credit characteristics. Market rates take into consideration general market conditions and maturity. As of December 31, 2011, the carrying value and estimated fair value of the Company's debt was \$63.1 million and \$64.0 million. As of December 31, 2010, the carrying value and estimated fair value of the Company's debt was \$63.7 million and \$64.4 million.

The Company's interest expense in 2011, 2010 and 2009 is net of interest capitalized in conjunction with hotel renovations totaling \$0.2 million, \$0.1 million and \$0.3 million.

#### **Note 4**

##### **Shareholders' Equity**

###### *Best-efforts Offering*

The Company concluded its best-efforts offering of Units on March 3, 2006. The Company registered its Units on Registration Statement Form S-11 (File No. 333-112169). The Company began its best-efforts offering of Units on April 23, 2004, the same day the Registration Statement was declared effective by the Securities and Exchange Commission. Each Unit consists of one common share and one Series A preferred share.

###### *Series A Preferred Shares*

The Series A preferred shares have no voting rights and no conversion rights. In addition, the Series A preferred shares are not separately tradable from the common shares to which they relate. The Series A preferred shares do not have any distribution rights except a priority distribution upon the sale of the Company's assets. The priority distribution ("Priority Distribution") will be equal to \$11.00 per Series A preferred share, and will be paid before any distribution will be made to the holders of any other shares. Upon the Priority Distribution the Series A preferred shares will have no other distribution rights.

###### *Series B Convertible Preferred Stock*

The Company has issued 240,000 Series B convertible preferred shares to Glade M. Knight, Chairman and Chief Executive Officer of the Company, in exchange for the payment by him of \$0.10 per Series B convertible preferred share, or an aggregate of \$24,000. The Series B convertible preferred shares are convertible into common shares pursuant to the formula and on the terms and conditions set forth below.

There are no dividends payable on the Series B convertible preferred shares. Holders of more than two-thirds of the Series B convertible preferred shares must approve any proposed amendment to the articles of incorporation that would adversely affect the Series B convertible preferred shares.

Upon the Company's liquidation, the holder of the Series B convertible preferred shares is entitled to a priority liquidation payment before any distribution of liquidation proceeds to the holders of the common shares. However, the priority liquidation payment of the holder of the Series B convertible preferred shares is junior to the holders of the Series A preferred shares' distribution rights. The holder of a Series B convertible preferred share is entitled to a liquidation payment of \$11 per number of common shares each Series B convertible preferred share would be convertible into according to the formula described below. In the event that the liquidation of the Company's assets results in proceeds that exceed the distribution rights of the Series A preferred shares and the Series B convertible preferred shares, the remaining proceeds will be distributed between the common shares and the Series B convertible preferred shares, on an as converted basis.

Each holder of outstanding Series B convertible preferred shares shall have the right to convert any of such shares into common shares of the Company upon and for 180 days following the occurrence of any of the following events:

- (1) substantially all of the Company's assets, stock or business is sold or transferred through exchange, merger, consolidation, lease, share exchange, sale or otherwise, other than a sale of assets in liquidation, dissolution or winding up of the Company;
- (2) the termination or expiration without renewal of the advisory agreement with Apple Six Advisors, Inc. ("A6A"), or if the Company ceases to use A6RG to provide property acquisition and disposition services; or
- (3) the Company's common shares are listed on any securities exchange or quotation system or in any established market.

Upon the occurrence of any conversion event, each Series B convertible preferred share may be converted into 24.17104 common shares. In the event that the Company raises additional gross proceeds in a subsequent public offering, each Series B convertible preferred share may be converted into an additional number of common shares based on the additional gross proceeds raised through the date of conversion in a subsequent public offering according to the following formula:  $(X/50 \text{ million}) \times 1.20568$ , where X is the additional gross proceeds rounded down to the nearest \$50 million.

No additional consideration is due upon the conversion of the Series B convertible preferred shares. The conversion into common shares of the Series B convertible preferred shares will result in dilution of the common shareholders' interests and the termination of the Series A preferred shares.

Expense related to the issuance of 240,000 Series B convertible preferred shares to Mr. Knight will be recognized at such time when the number of common shares to be issued for conversion of the Series B shares can be reasonably estimated and the event triggering the conversion of the Series B shares to common shares occurs. The expense will be measured as the difference between the fair value of the common stock for which the Series B shares can be converted and the amounts paid for the Series B shares. If a conversion event had occurred at December 31, 2011, expense could have ranged from \$0 to \$63.8 million (assumes \$11 per Unit fair market value), which represents approximately 5.8 million shares of common stock.

### *Preferred Shares*

The Company's articles of incorporation authorize issuance of up to 15 million additional preferred shares. No preferred shares other than the Series A preferred shares and the Series B convertible preferred shares (discussed above) have been issued. The Company believes that the authorization to issue additional preferred shares benefits the Company and its shareholders by permitting flexibility in financing additional growth, giving the Company additional financing options in corporate planning and in responding to developments in business, including financing of additional acquisitions and other general corporate purposes. Having authorized preferred shares available for issuance in the future gives the Company the ability to respond to future developments and allows preferred shares to be issued without the expense and delay of a special shareholders' meeting. At present, the Company has no specific financing or acquisition plans involving the issuance of additional preferred shares and the Company does not propose to fix the characteristics of any series of preferred shares in anticipation of issuing preferred shares other than the Series A preferred shares and Series B convertible preferred shares discussed above. The Company cannot now predict whether or to what extent, if any, additional preferred shares will be used or if so used what the characteristics of a particular series may be. The voting rights and rights to distributions of the holders of common shares will be subject to



the prior rights of the holders of any subsequently-issued preferred shares. Unless otherwise required by applicable law or regulation, the preferred shares would be issuable without further authorization by holders of the common shares and on such terms and for such consideration as may be determined by the Board of Directors. The preferred shares could be issued in one or more series having varying voting rights, redemption and conversion features, distribution (including liquidating distribution) rights and preferences, and other rights, including rights of approval of specified transactions. A series of preferred shares could be given rights that are superior to rights of holders of common shares and a series having preferential distribution rights could limit common share distributions and reduce the amount holders of common shares would otherwise receive on dissolution.

#### *Unit Redemption Program*

The Company has a Unit Redemption Program to provide limited interim liquidity to its shareholders who have held their Units for at least one year. Shareholders may request redemption of Units for a purchase price equal to the lesser of: (1) the purchase price per Unit that the shareholder actually paid for the Unit; or (2) \$11.00 per Unit. The Company reserves the right to change the purchase price of redemptions, reject any request for redemption, or otherwise amend the terms of, suspend, or terminate the Unit Redemption Program. As noted below, during 2011, the total redemption requests exceeded the authorized amount of redemptions and the Board of Directors has and will continue to limit the amount of redemptions as it deems prudent. Since inception of the program through December 31, 2011, the Company has redeemed approximately 16.6 million Units representing \$182.4 million, including 2.8 million Units in the amount of \$30.2 million in 2011 and 2.8 million Units in the amount of \$30.4 million in 2010. As contemplated in the program, beginning with the July 2011 redemption, the scheduled redemption date for the third quarter of 2011, the Company redeemed Units on a pro-rata basis. Prior to July 2011, the Company redeemed 100% of redemption requests. The following is a summary of the 2011 Unit redemptions:

<u>Redemption Date</u>	<u>Requested Unit Redemptions</u>	<u>Units Redeemed</u>	<u>Redemption Requests not Redeemed</u>
January 2011 .....	606,064	606,064	0
April 2011.....	683,427	683,427	0
July 2011.....	4,412,066	737,284	3,674,782
October 2011.....	9,878,351	726,613	9,151,738

#### *Dividend Reinvestment Plan*

In February 2006, the Company instituted a Dividend Reinvestment Plan for its shareholders. The plan provides a way to increase shareholder investment in the Company by reinvesting dividends to purchase additional Units of the Company. The uses of the proceeds from this plan may include purchasing Units under the Company's Unit Redemption Program, enhancing properties, satisfying financing obligations and other expenses, increasing working capital, funding various corporate operations, and acquiring hotels. The Company has registered 20.0 million Units for potential issuance under the plan. As of December 31, 2011, approximately 16.7 million Units, representing \$183.6 million in proceeds to the Company, have been issued under the plan, including 2.5 million Units representing \$27.1 million issued in 2011 and 2.8 million Units representing \$30.5 million issued in 2010.

#### *Distributions*

The Company's annual distribution rate as of December 31, 2011 was \$0.792 per common share, payable monthly. For the years ended December 31, 2011, 2010 and 2009, the company has made distributions of \$0.78, \$0.79 and \$0.90 per common share for a total of \$71.2 million, \$72.3 million and \$82.2 million.

#### **Note 5**

##### **Stock Incentive Plans**

On January 20, 2004, the Board of Directors approved a Non-Employee Directors Stock Option Plan (the "Directors Plan") whereby directors, who are not employees of the Company or affiliates, automatically receive

the option to purchase Units. Under the Directors Plan, the number of Units authorized for issuance is equal to 45,000 plus 1.8% of the number of Units sold in excess of the minimum offering of 4,761,905 Units. This plan currently relates to the initial public offering of 91,125,541 Units. Therefore, the maximum number of Units authorized under the Directors Plan is currently 1,599,545 based on the number of shares issued as of December 31, 2011.

On January 20, 2004, the Board of Directors approved an Incentive Stock Option Plan (the “Incentive Plan”) whereby incentive awards may be granted to certain personnel of the Company or affiliates. Under the Incentive Plan, the number of Units authorized for issuance is equal to 35,000 plus 4.625% of the number of Units sold in the initial offering in excess of 4,761,905. This plan also currently relates to the initial public offering of 91,125,541 Units. Therefore, the maximum number of Units that can be issued under the Incentive Plan is currently 4,029,318 based on the number of shares issued as of December 31, 2011.

Both plans generally provide, among other things, that options be granted at exercise prices not lower than the market value of the Units on the date of grant. The options expire 10 years from the date of the grant. During 2011, 2010 and 2009, the Company granted options to purchase 73,040, 73,032 and 72,828 Units, respectively, under the Directors Plan. All of the options issued vested at the date of issuance, and have an exercise price of \$11 per Unit. The Company has granted no options under the Incentive Plan. Activity in the Company’s share option plan during 2011, 2010 and 2009 is summarized in the following table:

	2011	2010	2009
Outstanding, beginning of year:.....	434,220	361,188	288,360
Granted.....	73,040	73,032	72,828
Exercised.....	—	—	—
Expired or canceled.....	—	—	—
Outstanding, end of year:.....	507,260	434,220	361,188
Exercisable, end of year:.....	507,260	434,220	361,188
The weighted-average exercise price: .....	\$ 11.00	\$ 11.00	\$ 11.00

The Company recorded \$111,000, \$115,000 and \$91,000 of share-based expense for the options issued in each of the years ended December 31, 2011, 2010 and 2009.

## Note 6

### Management and Franchise Agreements

Each of the 66 hotels included in the Company’s continuing operations are operated and managed, under separate management agreements, by affiliates of one of the following companies (indicates the number of hotels managed): Marriott International, Inc. (“Marriott”) (3), Stonebridge Realty Advisors, Inc. (“Stonebridge”) (10), Hilton Worldwide (“Hilton”) (5), Western International (“Western”) (8), Larry Blumberg & Associates (“LBA”) (20), White Lodging Services Corporation (“White”) (9), Inn Ventures, Inc. (“Inn Ventures”) (10) or Newport Hospitality Group, Inc. (“Newport”) (1). The agreements have remaining terms ranging from 1 to 23 years. Fees associated with the agreements generally include the payment of base management fees, incentive management fees, accounting fees, and other fees for centralized services which are allocated among all of the hotels that receive the benefit of such services. Base management fees are calculated as a percentage of gross revenues. Incentive management fees are calculated as a percentage of operating profit in excess of a priority return to the Company, as defined in the management agreements. The Company has the option to terminate the management agreements if specified performance thresholds are not satisfied. During the years ended December 31, 2011, 2010 and 2009, the Company incurred approximately \$8.0 million, \$7.0 million and \$6.6 million in management fees for continuing operations.

Stonebridge, Western, LBA, White, Inn Ventures and Newport are not affiliated with either Marriott or Hilton, and as a result, the hotels managed by these companies were required to obtain separate franchise agreements with each respective franchisor. The Hilton franchise agreements generally provide for an initial term of 13 to 20 years. Fees associated with the Hilton agreements generally include the payment of royalty fees and program fees based on room revenues. The Marriott franchise agreements provide for an initial term of 15 to 20 years. Fees associated with the Marriott agreements include the payment of royalty fees, marketing fees, reservation fees and a communications support fee based on room revenues. During the years ended

December 31, 2011, 2010 and 2009, the Company incurred approximately \$9.9 million, \$9.3 million and \$8.8 million in franchise fees for continuing operations.

## **Note 7**

### **Related Parties**

The Company has, and is expected to continue to engage in, significant transactions with related parties. These transactions cannot be construed to be at arm's length and the results of the Company's operations may be different if these transactions were conducted with non-related parties. The Company's independent members of the Board of Directors oversee and annually review the Company's related party relationships (which include the relationships discussed in this section) and are required to approve any significant modifications to the contracts, as well as any new significant related party transactions. There were no changes to the contracts discussed in this section and no new significant related party transactions during the year ended December 31, 2011. The Board of Directors is not required to approve each individual transaction that falls under the related party relationships. However, under the direction of the Board of Directors, at least one member of the Company's senior management team approves each related party transaction.

The Company has a contract with Apple Six Realty Group ("A6RG"), a related party, to provide brokerage services for the acquisition and disposition of the Company's real estate assets. In accordance with the contract, A6RG is paid a fee of 2% of the gross purchase price of any acquisitions or gross sale price of any dispositions of real estate investments, subject to certain conditions plus certain reimbursable costs. As of December 31, 2011, payments to A6RG for services under the terms of this contract have totaled \$16.9 million since inception which were capitalized as a part of the purchase price of the hotels. No fees were incurred during 2011, 2010 and 2009 under the contract.

The Company is party to an advisory agreement with Apple Six Advisors, Inc. ("A6A"), pursuant to which A6A provides management services to the Company. An annual fee ranging from 0.1% to 0.25% of total equity proceeds received by the Company, in addition to certain reimbursable expenses, are payable for these services. Total advisory fees incurred by the Company under the advisory agreement are included in general and administrative expenses and totaled \$1.5 million for each of the three years ended December 31, 2011, 2010 and 2009.

Through its wholly-owned subsidiary, Apple Fund Management, LLC ("AFM"), the Company provides support services to A6RG, Apple Suites Realty Group, Inc. ("ASRG"), A6A, Apple Seven Advisors, Inc. ("A7A"), Apple REIT Seven, Inc., Apple Eight Advisors, Inc. ("A8A"), Apple REIT Eight, Inc., Apple Nine Advisors, Inc. ("A9A"), Apple REIT Nine, Inc., Apple Ten Advisors, Inc. ("A10A") and Apple REIT Ten, Inc. A7A provides day to day advisory and administrative functions for Apple REIT Seven, Inc. A8A provides day to day advisory and administrative functions for Apple REIT Eight, Inc. A9A provides day to day advisory and administrative functions for Apple REIT Nine, Inc. A10A provides day to day advisory and administrative functions for Apple REIT Ten, Inc. ASRG provides real estate brokerage services to Apple REIT Seven, Inc., Apple REIT Eight, Inc., Apple REIT Nine, Inc. and Apple REIT Ten, Inc. Each of these companies has agreed to reimburse the Company for its costs in providing these services. A6RG, ASRG, A6A, A7A, A8A, A9A and A10A are 100% owned by Glade Knight, the Company's Chairman and Chief Executive Officer. For the years ended December 31, 2011, 2010 and 2009, the Company received reimbursement of its costs totaling \$7.2 million, \$6.1 million and \$5.9 million from the participating entities. The Company's net allocated cost for these support services was approximately \$1.5 million, \$1.7 million and \$1.9 million for the years ended December 31, 2011, 2010 and 2009. As part of this arrangement, the day to day transactions may result in amounts due to or from the noted related parties. To effectively manage cash disbursements, the individual companies may make payments for any or all of the related companies. The amounts due to or from the related companies are reimbursed or collected and are not significant in amount.

Although there is a potential conflict on time allocation of personnel due to the fact that a senior manager, officer or staff member will provide services to more than one company, the Company believes that the executives and staff compensation sharing arrangement allows the companies to share costs yet attract and retain superior executives and staff. The cost sharing structure also allows each entity to maintain a much more cost effective structure than having separate staffing arrangements. Amounts reimbursed to the Company include both compensation for personnel and "overhead" (office rent, utilities, benefits, office supplies, etc.)

utilized by the companies. AFM receives its direction for staffing and compensation from the advisory companies (A6A, A7A, A8A, A9A, A10A, ASRG, and A6RG) each of which is wholly owned by Glade M Knight. Since the employees of AFM may also perform services for the advisors, individuals, including executive officers, have received and may receive consideration directly from the advisors. The allocation of costs is made by the management of the several REITs and is reviewed at least annually by the Compensation Committees of the several REITs. In making the allocation, management and the Compensation Committee consider all relevant facts related to the Company's level of business activity and the extent to which the Company requires the services of particular personnel. The costs allocated are actual costs and do not include any profit/markup for the Company. Such payments are not based on formal record keeping regarding the time these personnel devote to the Company, but are based on a good faith estimate by the employee and/or his or her supervisor of the time devoted by the employee to each Company.

Including A6RG, ASRG, A6A, A7A, A8A, A9A and A10A discussed above, Mr. Knight is also Chairman and Chief Executive Officer of Apple REIT Seven, Inc., Apple REIT Eight, Inc., Apple REIT Nine, Inc. and Apple REIT Ten, Inc. Members of the Company's Board of Directors are also on the boards of Apple REIT Seven, Inc., Apple REIT Eight, Inc. and Apple REIT Nine, Inc.

In January 2009, the Company's equity investment in Apple Air Holding, LLC ("Apple Air") was reduced from 50% to 26% through the redemption of a 24% equity interest by Apple Air. The Company received approximately \$3.2 million for the equity interest redeemed. No gain or loss from the redemption was recognized by the Company. The Company's 26% equity investment in Apple Air is included in other assets, net on the Company's consolidated balance sheet. The other members of Apple Air are Apple REIT Seven, Inc., Apple REIT Eight, Inc. and Apple REIT Nine, Inc. Through its equity investment the Company has access to Apple Air's aircraft for asset management and renovation purposes. The Company's equity investment was approximately \$1.7 million and \$1.8 million at December 31, 2011 and 2010. The Company has recorded its share of income and losses of the entity under the equity method of accounting and adjusted its investment in Apple Air accordingly. For the years ended December 31, 2011 and 2010, the Company recorded a loss of approximately \$0.2 million and \$0.9 million as its share of the net loss of Apple Air, which primarily relates to the depreciation of the aircraft and the reduction in basis of the aircraft in 2010 due to the planned trade in for one new airplane in 2011, and is included in general and administrative expense in the Company's consolidated statements of operations. Apple Air owned two aircraft during 2010, but reduced its ownership to one aircraft during the first quarter of 2011.

The Company has incurred legal fees associated with the Legal Proceedings and Related Matters discussed herein. The Company also incurs other professional fees such as accounting, auditing and reporting. These fees are included in general and administrative expense in the Company's consolidated statements of operations. To be cost effective, these services received by the Company are shared as applicable across the other Apple REIT Companies (Apple REIT Seven, Inc., Apple REIT Eight, Inc., Apple REIT Nine, Inc., and Apple REIT Ten, Inc.). The professionals cannot always specifically identify their fees for one company therefore management allocates these costs across the companies that benefit from the services.

## **Note 8**

### **Dispositions**

Based on the performance, location, and capital requirements of the Tempe, Arizona TownePlace Suites and SpringHill Suites, the Company committed to sell these two properties in the third quarter of 2010. On June 6, 2011, the Company sold these hotels for net proceeds of \$10.8 million. These hotels were classified on the consolidated balance sheet as hotels held for sale at December 31, 2010, and were recorded at the fair value less cost to sell. The results of operations for these properties have been classified in the consolidated statements of operations in the line item income (loss) from discontinued operations.

The following table sets forth the components of income (loss) from discontinued operations for the years ended December 31, 2011, 2010 and 2009 (in thousands):

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Total revenue.....	\$1,916	\$ 3,696	\$3,366
Hotel operating expenses.....	1,108	2,573	2,564
Taxes, insurance and other .....	108	320	294
Depreciation expense.....	—	393	521
Loss on sale of hotels .....	—	3,567	—
Income (loss) from discontinued operations .....	<u>\$ 700</u>	<u>\$(3,157)</u>	<u>\$ (13)</u>

During the second half of 2010, the Company recorded a loss of \$3.6 million based on the fair value of the two properties less cost to sell, as compared to net book value. No gain or loss was incurred by the Company upon the completion of the sale of the two properties in June 2011.

## **Note 9**

### **Commitments**

The Company has ground leases related to five of its hotels with remaining terms ranging from 4 to 16 years. Each of the leases has the option for the Company to extend the lease. The aggregate amounts of minimum lease payments under these agreements for the five years subsequent to December 31, 2011 and thereafter are as follows (in thousands):

	<u>Total</u>
2012.....	\$ 335
2013.....	343
2014.....	343
2015.....	349
2016.....	352
Thereafter.....	<u>7,418</u>
Total.....	<u>\$9,140</u>

## **Note 10**

### **Industry Segments**

The Company owns extended-stay and limited service hotel properties throughout the United States that generate rental and other property related income. The Company separately evaluates the performance of each of its hotel properties. However, because each of the hotels has similar economic characteristics, facilities, and services, the properties have been aggregated into a single operating segment. All segment disclosures are included in, or can be derived from, the Company's consolidated financial statements.

## **Note 11**

### **Legal Proceedings and Related Matters**

The term the "Apple REIT Companies" means the Company, Apple REIT Seven, Inc., Apple REIT Eight, Inc., Apple REIT Nine, Inc. and Apple REIT Ten, Inc.

On December 13, 2011, the United States District Court for the Eastern District of New York ordered that three putative class actions, Kronberg, et al. v. David Lerner Associates, Inc., et al., Kowalski v. Apple REIT Ten, Inc., et al., and Leff v. Apple REIT Ten, Inc., et al., be consolidated and amended the caption of the consolidated matter to be In re Apple REITs Litigation. The District Court also appointed lead plaintiffs and lead counsel for the consolidated action and ordered lead plaintiffs to file and serve a consolidated complaint by February 17, 2012. The parties agreed to a schedule for answering or otherwise responding to the complaint and that briefing on any motion to dismiss the complaint will be concluded by June 18, 2012. The



Company was previously named as a party in the Kronberg, et al. v. David Lerner Associates, Inc., et al. class action lawsuit.

On February 17, 2012, lead plaintiffs and lead counsel in the In re Apple REITs Litigation, Civil Action No. 1:11-cv-02919-KAM-JO, filed an amended consolidated complaint in the United States District Court for the Eastern District of New York against the Company, Apple Suites Realty Group, Inc., Apple Eight Advisors, Inc., Apple Nine Advisors, Inc., Apple Ten Advisors, Inc., Apple Fund Management, LLC, Apple REIT Seven, Inc., Apple REIT Eight, Inc., Apple REIT Nine, Inc. and Apple REIT Ten, Inc., their directors and certain officers, and David Lerner Associates, Inc. and David Lerner. The consolidated complaint, purportedly brought on behalf of all purchasers of Units in the Company and the other Apple REIT Companies, or those who otherwise acquired these Units that were offered and sold to them by David Lerner Associates, Inc., or its affiliates and on behalf of subclasses of shareholders in New Jersey, New York, Connecticut and Florida, asserts claims under Sections 11, 12 and 15 of the Securities Act of 1933. The consolidated complaint also asserts claims for breach of fiduciary duty, aiding and abetting breach of fiduciary duty, negligence, and unjust enrichment, and claims for violation of the securities laws of Connecticut and Florida. The complaint seeks, among other things, certification of a putative nationwide class and the state subclasses, damages, rescission of share purchases and other costs and expenses.

On February 16, 2012, one shareholder of the Company and Apple REIT Seven, Inc., filed a putative class action lawsuit captioned Laurie Brody v. David Lerner Associates, Inc., et al., Case No. 1:12-cv-782-ERK-RER, in the United States District Court for the Eastern District of New York against the Company, Apple REIT Seven, Inc., Glade M. Knight, Apple Suites Realty Group, Inc., David Lerner Associates, Inc., and certain executives of David Lerner Associates, Inc. The complaint, purportedly brought on behalf of all purchasers of Units of the Company and Apple REIT Seven, Inc., or those who otherwise acquired these Units, asserts claims for breach of fiduciary duty and aiding and abetting breach of fiduciary duty, unjust enrichment, negligence, breach of written or implied contract (against the David Lerner Associates, Inc. defendants only), and for violation of New Jersey's state securities laws. Counsel for the plaintiff in Laurie Brody v. David Lerner Associates et. al. has consented to consolidating this case into the In re Apple REITs Litigation.

The Company believes that any claims against it, its officers and directors and other Apple entities are without merit, and intends to defend against them vigorously. At this time, the Company cannot reasonably predict the outcome of these proceedings or provide a reasonable estimate of the possible loss or range of loss due to these proceedings, if any.

## Note 12

### Quarterly Financial Data (unaudited)

The following is a summary of quarterly results of operations for the years ended December 31, 2011 and 2010:

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
<b>2011 (in thousands except per share data)</b>				
Revenues .....	\$56,351	\$63,784	\$67,630	\$56,256
Income from continuing operations .....	\$ 8,941	\$12,738	\$15,464	\$ 7,318
Income (loss) from discontinued operations .....	\$ 515	\$ 156	\$ 26	\$ 3
Net income .....	\$ 9,456	\$12,894	\$15,490	\$ 7,321
Basic and diluted net income per common share .....	\$ 0.10	\$ 0.14	\$ 0.17	\$ 0.08
Distributions declared and paid per common share .....	\$ 0.193	\$ 0.193	\$ 0.198	\$ 0.198
<b>2010 (in thousands except per share data)</b>				
Revenues .....	\$52,063	\$59,980	\$63,187	\$52,083
Income from continuing operations .....	\$ 7,268	\$11,801	\$13,526	\$ 4,946
Income (loss) from discontinued operations .....	\$ 389	\$ (7)	\$(3,289)	\$(250)
Net income .....	\$ 7,657	\$11,794	\$10,237	\$ 4,696
Basic and diluted net income per common share .....	\$ 0.08	\$ 0.13	\$ 0.11	\$ 0.05
Distributions declared and paid per common share .....	\$ 0.215	\$ 0.193	\$ 0.193	\$ 0.193

## **Note 13**

### **Subsequent Events**

In January 2012, the Company declared and paid approximately \$6.0 million or \$0.066 per common share, in distributions to its common shareholders, of which approximately \$1.8 million or 166,000 Units were reinvested under the Company's Dividend Reinvestment Plan.

In January 2012, under the guidelines of the Company's Unit Redemption Program, the Company redeemed approximately 460,000 Units in the amount of \$5.1 million. As contemplated in the Program, the Company redeemed Units on a pro-rata basis, whereby a percentage of each requested redemption was fulfilled at the discretion of the Company's Board of Directors. A total of approximately 11.6 million shares were requested to be redeemed. This redemption was approximately 4% of the requested redemption amount with approximately 11.1 million requested Units not redeemed.

In February 2012, the Company declared and paid approximately \$6.0 million or \$0.066 per common share, in distributions to its common shareholders, of which approximately \$1.8 million or 163,000 Units were reinvested under the Company's Dividend Reinvestment Plan.

**Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

**Item 9A. *Controls and Procedures***

Senior management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation process, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of December 31, 2011. There have been no changes in the Company's internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

See Item 8 for the Report of Management on Internal Control over Financial Reporting and the Company's Independent Registered Public Accounting Firm's attestation report regarding internal control over financial reporting, which are incorporated by reference herein.

**Item 9B. *Other Information***

None.

### **PART III**

#### **Item 10. *Directors, Executive Officers and Corporate Governance***

The information required by Items 401, 405, 406 and 407(c)(3), (d)(4) and (d)(5) of Regulation S-K will be set forth in the Company's 2012 Proxy Statement. For the limited purpose of providing the information necessary to comply with this Item 10, the 2012 Proxy Statement is incorporated herein by this reference.

#### **Item 11. *Executive Compensation***

The information required by Items 402 and 407(e)(4) and (e)(5) of Regulation S-K will be set forth in the Company's 2012 Proxy Statement. For the limited purpose of providing the information necessary to comply with this Item 11, the 2012 Proxy Statement is incorporated herein by this reference.

#### **Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters***

The information required by Items 201(d) and 403 of Regulation S-K will be set forth in the Company's 2012 Proxy Statement. For the limited purpose of providing the information necessary to comply with this Item 12, the 2012 Proxy Statement is incorporated herein by this reference.

#### **Item 13. *Certain Relationships and Related Transactions, and Director Independence***

The information required by Items 404 and 407(a) of Regulation S-K will be set forth in the Company's 2012 Proxy Statement. For the limited purpose of providing the information necessary to comply with this Item 13, the 2012 Proxy Statement is incorporated herein by this reference.

#### **Item 14. *Principal Accounting Fees and Services***

This information required by Item 9(e) of Schedule 14A will be set forth in the Company's 2012 Proxy Statement. For the limited purpose of providing the information necessary to comply with this Item 14, the 2012 Proxy Statement is incorporated herein by this reference.

## **PART IV**

### **Item 15. Exhibits, Financial Statement Schedules**

#### **1. Financial Statements of Apple REIT Six, Inc.**

Report of Management on Internal Control Over Financial Reporting

Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting—Ernst & Young LLP

Report of Independent Registered Public Accounting Firm—Ernst & Young LLP

Consolidated Balance Sheets as of December 31, 2011 and 2010

Consolidated Statements of Operations for the years ended December 31, 2011, 2010 and 2009

Consolidated Statements of Shareholders' Equity for the years ended December 31, 2011, 2010 and 2009

Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2010 and 2009

Notes to Consolidated Financial Statements

These financial statements are set forth in Item 8 of this report and are hereby incorporated by reference.

#### **2. Financial Statement Schedules**

Schedule III—Real Estate and Accumulated Depreciation (Included at the end of this Part IV of this report.)

Financial statement schedules not listed are either omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

#### **3. Exhibits**

Incorporated herein by reference are the exhibits listed under “Exhibits Index” to this Report available at [www.sec.gov](http://www.sec.gov).

**SCHEDULE III**  
**REAL ESTATE AND ACCUMULATED DEPRECIATION**  
**As of December 31, 2011**  
(dollars in thousands)

City	State	Brand	Encumbrances	Initial Cost		Subsequently Capitalized	Total Gross Cost <sup>(1)</sup>	Acc Deprec	Date of Construction	Date Acquired	Depreciable Life	# of Rooms
				Land	Bldg/FF&E/Other	Bldg Imp. & FF&E						
Birmingham	Alabama	Fairfield Inn	\$ —	\$ 347	\$ 2,064	\$ 291	\$ 2,702	\$ (506)	1995	Aug-05	3 - 39 yrs.	63
Dothan	Alabama	Courtyard	—	1,262	7,150	1,371	9,783	(1,935)	1996	Aug-05	3 - 39 yrs.	78
Dothan	Alabama	Hampton Inn & Suites	—	837	8,134	203	9,174	(1,867)	2004	Jun-05	3 - 39 yrs.	85
Huntsville	Alabama	Fairfield Inn	2,605	502	4,817	296	5,615	(962)	1999	Sep-05	3 - 39 yrs.	79
Huntsville	Alabama	Residence Inn	—	941	7,638	1,558	10,137	(2,128)	2002	Jun-05	3 - 39 yrs.	78
Montgomery	Alabama	SpringHill Suites	3,256	956	6,334	301	7,591	(1,238)	1998	Sep-05	3 - 39 yrs.	79
Tuscaloosa	Alabama	Courtyard	—	—	7,953	1,431	9,384	(1,907)	1996	Aug-05	3 - 39 yrs.	78
Tuscaloosa	Alabama	Fairfield Inn	—	—	4,240	302	4,542	(876)	1996	Aug-05	3 - 39 yrs.	63
Anchorage	Alaska	Hampton Inn	—	1,216	10,505	2,553	14,274	(3,437)	1997	Mar-05	3 - 39 yrs.	101
Anchorage	Alaska	Hilton Garden Inn	—	4,217	14,801	1,910	20,928	(4,030)	2002	Oct-04	3 - 39 yrs.	125
Anchorage	Alaska	Homewood Suites	—	1,797	11,052	842	13,691	(2,860)	2004	Oct-04	3 - 39 yrs.	122
Phoenix	Arizona	Hampton Inn	—	1,417	5,213	2,050	8,680	(1,817)	1998	Oct-04	3 - 39 yrs.	99
Arcadia	California	Hilton Garden Inn	—	1,716	10,197	2,398	14,311	(3,590)	1999	Oct-04	3 - 39 yrs.	124
Arcadia	California	SpringHill Suites	—	1,623	6,469	937	9,029	(2,033)	1999	Oct-04	3 - 39 yrs.	86
Bakersfield	California	Hilton Garden Inn	—	1,159	10,572	313	12,044	(2,658)	2004	Mar-05	3 - 39 yrs.	120
Folsom	California	Hilton Garden Inn	—	1,516	16,994	1,415	19,925	(3,815)	1999	Nov-05	3 - 39 yrs.	100
Foothill Ranch	California	Hampton Inn	—	1,051	6,504	1,017	8,572	(1,933)	1998	Apr-05	3 - 39 yrs.	84
Lake Forest	California	Hilton Garden Inn	—	1,533	9,433	356	11,322	(2,492)	2004	Oct-04	3 - 39 yrs.	103
Milpitas	California	Hilton Garden Inn	—	2,555	16,544	2,192	21,291	(4,387)	1999	Nov-05	3 - 39 yrs.	161
Roseville	California	Hilton Garden Inn	—	2,355	18,944	1,840	23,139	(4,486)	1999	Nov-05	3 - 39 yrs.	131
San Francisco	California	Hilton Garden Inn	—	1,994	9,558	2,309	13,861	(3,361)	1999	Jan-06	3 - 39 yrs.	169
Boulder	Colorado	Marriott	—	3,058	27,833	2,442	33,333	(6,896)	1997	May-05	3 - 39 yrs.	157
Glendale	Colorado	Hampton Inn & Suites	4,929	3,627	11,235	1,465	16,327	(3,268)	1999	Oct-04	3 - 39 yrs.	133
Lakewood	Colorado	Hampton Inn	—	2,490	8,108	2,527	13,125	(2,587)	2003	Oct-04	3 - 39 yrs.	170
Farmington	Connecticut	Courtyard	—	1,792	15,436	139	17,367	(3,056)	2005	Oct-05	3 - 39 yrs.	119
Rocky Hill	Connecticut	Residence Inn	—	1,469	11,287	137	12,893	(2,321)	2005	Aug-05	3 - 39 yrs.	96
Wallingford	Connecticut	Homewood Suites	—	1,412	12,079	310	13,801	(2,615)	2005	Jul-05	3 - 39 yrs.	104
Clearwater	Florida	SpringHill Suites	—	—	7,214	66	7,280	(1,476)	2006	Feb-06	3 - 39 yrs.	79
Lake Mary	Florida	Courtyard	—	685	5,573	2,490	8,748	(2,160)	1995	Mar-05	3 - 39 yrs.	86
Lakeland	Florida	Residence Inn	—	1,512	8,707	1,417	11,636	(2,362)	2001	Jun-05	3 - 39 yrs.	78
Orange Park	Florida	Fairfield Inn	—	850	6,984	283	8,117	(1,281)	1998	Nov-05	3 - 39 yrs.	83
Panama City	Florida	Courtyard	—	1,399	8,225	120	9,744	(1,681)	2006	Mar-06	3 - 39 yrs.	84
Pensacola	Florida	Courtyard	—	1,181	10,733	1,766	13,680	(2,309)	1997	Aug-05	3 - 39 yrs.	90
Pensacola	Florida	Fairfield Inn	—	467	4,706	300	5,473	(953)	1995	Aug-05	3 - 39 yrs.	63
Pensacola	Florida	Hampton Inn & Suites	—	1,241	8,361	126	9,728	(1,919)	2005	Jul-05	3 - 39 yrs.	85
Tallahassee	Florida	Hilton Garden Inn	—	1,096	10,137	1,147	12,380	(2,531)	1997	Mar-05	3 - 39 yrs.	99
Albany	Georgia	Courtyard	—	1,246	7,665	191	9,102	(1,765)	2004	Jun-05	3 - 39 yrs.	84
Columbus	Georgia	Residence Inn	—	—	8,184	222	8,406	(1,768)	2003	Jun-05	3 - 39 yrs.	78
Savannah	Georgia	SpringHill Suites	2,638	687	5,105	300	6,092	(1,020)	1999	Sep-05	3 - 39 yrs.	79
Valdosta	Georgia	Courtyard	—	1,030	7,535	1,248	9,813	(1,879)	2002	Oct-05	3 - 39 yrs.	84
Mt. Olive	New Jersey	Residence Inn	—	1,407	11,334	288	13,029	(2,443)	2005	Sep-05	3 - 39 yrs.	123
Somerset	New Jersey	Homewood Suites	—	1,807	16,807	398	19,012	(3,450)	2005	Aug-05	3 - 39 yrs.	123
Saratoga Springs	New York	Hilton Garden Inn	—	2,391	15,893	1,630	19,914	(3,558)	1999	Sep-05	3 - 39 yrs.	112
Roanoke Rapids	North Carolina	Hilton Garden Inn	—	2,457	15,714	35	18,206	(2,157)	2008	Mar-08	3 - 39 yrs.	147
Hillsboro	Oregon	Courtyard	5,877	1,869	9,494	2,454	13,817	(2,360)	1996	Mar-06	3 - 39 yrs.	155
Hillsboro	Oregon	Residence Inn	—	2,656	13,304	479	16,439	(2,750)	1994	Mar-06	3 - 39 yrs.	122
Hillsboro	Oregon	TownePlace Suites	—	2,140	9,725	1,343	13,208	(2,610)	1999	Dec-05	3 - 39 yrs.	136
Portland	Oregon	Residence Inn	—	4,390	38,697	3,590	46,677	(8,652)	2001	Dec-05	3 - 39 yrs.	258
Pittsburgh	Pennsylvania	Residence Inn	—	1,155	10,273	1,950	13,378	(2,969)	1998	Sep-05	3 - 39 yrs.	156
Myrtle Beach	South Carolina	Courtyard	—	1,857	7,631	1,337	10,825	(2,601)	1999	Jun-04	3 - 39 yrs.	135
Nashville	Tennessee	Homewood Suites	—	1,170	7,177	1,788	10,135	(2,055)	1999	May-05	3 - 39 yrs.	121
Arlington	Texas	SpringHill Suites	—	1,114	6,657	1,358	9,129	(1,749)	1998	Jun-05	3 - 39 yrs.	122
Arlington	Texas	TownePlace Suites	—	1,027	6,379	316	7,722	(1,488)	1999	Jun-05	3 - 39 yrs.	95
Dallas	Texas	SpringHill Suites	—	1,367	18,742	641	20,750	(4,051)	1997	Dec-05	3 - 39 yrs.	148
Fort Worth	Texas	Homewood Suites	—	1,152	8,210	2,517	11,879	(2,902)	1999	May-05	3 - 39 yrs.	137
Fort Worth	Texas	Residence Inn	—	1,873	15,586	208	17,667	(3,407)	2005	May-05	3 - 39 yrs.	149
Ft. Worth	Texas	SpringHill Suites	—	2,125	11,619	198	13,942	(2,852)	2004	May-04	3 - 39 yrs.	145
Laredo	Texas	Homewood Suites	—	1,112	9,787	255	11,154	(2,130)	2005	Nov-05	3 - 39 yrs.	106
Laredo	Texas	Residence Inn	—	898	10,973	165	12,036	(2,365)	2005	Sep-05	3 - 39 yrs.	109
Las Colinas	Texas	TownePlace Suites	—	1,195	6,266	354	7,815	(1,627)	1998	Jun-05	3 - 39 yrs.	136
McAllen	Texas	Hilton Garden Inn	—	1,170	8,151	1,685	11,006	(2,432)	2000	Jul-05	3 - 39 yrs.	104



**SCHEDULE III**  
**REAL ESTATE AND ACCUMULATED DEPRECIATION—(Continued)**  
**As of December 31, 2011**  
(dollars in thousands)

City	State	Brand	Encumbrances	Initial Cost		Subsequently Capitalized	Total Gross Cost <sup>(1)</sup>	Acc Deprec	Date of Construction	Date Acquired	Depreciable Life	# of Rooms
				Land	Bldg./FF&E/Other	Bldg Imp. & FF&E						
Fredericksburg	Virginia	Hilton Garden Inn	\$ —	\$ 1,821	\$ 15,363	\$ 299	\$ 17,483	\$ (3,208)	2005	Dec-05	3 - 39 yrs.	148
Richmond	Virginia	Corporate Office	—	684	1,038	3,925	5,647	(2,462)	1893	Jun-04	3 - 39 yrs.	N/A
Kent	Washington	TownePlace Suites	—	1,831	10,731	1,612	14,174	(2,941)	1999	Dec-05	3 - 39 yrs.	152
Mukilteo	Washington	TownePlace Suites	—	1,499	11,061	1,380	13,940	(2,804)	1999	Dec-05	3 - 39 yrs.	128
Redmond	Washington	Marriott	—	9,504	56,168	2,144	67,816	(13,571)	2004	Jul-04	3 - 39 yrs.	262
Renton	Washington	Hilton Garden Inn	—	1,272	14,679	2,252	18,203	(4,101)	1998	Nov-05	3 - 39 yrs.	150
Deposits on Construction in Progress			—	—	—	171	171	—				
			<u>\$19,305</u>	<u>\$107,179</u>	<u>\$747,682</u>	<u>\$77,353</u>	<u>\$932,214</u>	<u>\$ (185,860)</u>				<u>7,658</u>

	2011	2010	2009		2011	2010	2009
<b>Real estate owned:</b>				<b>Accumulated depreciation:</b>			
Balance as of January 1 .....	\$918,009	\$926,589	\$917,468	Balance as of January 1 .....	\$153,452	\$124,943	\$ 94,005
Acquisition .....	303	—	—	Depreciation expense .....	32,432	31,199	30,938
Improvements .....	13,933	8,426	9,121	Disposals .....	(24)	—	—
Disposals .....	(31)	—	—	Discontinued Operations .....	—	(2,690)	—
Discontinued Operations .....	—	(17,006)	—	Balance at December 31 .....	<u>\$185,860</u>	<u>\$153,452</u>	<u>\$124,943</u>
Balance at December 31 .....	<u>\$932,214</u>	<u>\$918,009</u>	<u>\$926,589</u>				

(1) The gross cost basis for Federal Income Tax purposes approximates the basis used in this schedule.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

APPLE REIT SIX, INC

By: /s/ GLADE M. KNIGHT Date: March 12, 2012  
**Glade M. Knight,  
Chairman of the Board and  
Chief Executive Officer  
(Principal Executive Officer)**

By: /s/ BRYAN PEERY Date: March 12, 2012  
**Bryan Peery,  
Chief Financial Officer  
(Principal Financial and  
Principal Accounting Officer)**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the date indicated.

By: /s/ GLADE M. KNIGHT Date: March 12, 2012  
**Glade M. Knight, Director**

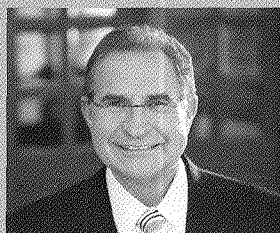
By: /s/ LISA B. KERN Date: March 12, 2012  
**Lisa B. Kern, Director**

By: /s/ BRUCE H. MATSON Date: March 12, 2012  
**Bruce H. Matson, Director**

By: /s/ MICHAEL S. WATERS Date: March 12, 2012  
**Michael S. Waters, Director**

By: /s/ ROBERT M. WILY Date: March 12, 2012  
**Robert M. Wily, Director**

# Board of Directors



GLADE M. KNIGHT\*  
Chairman



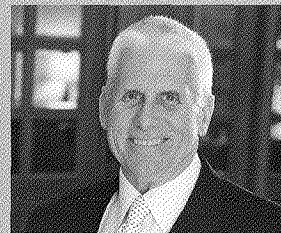
BRUCE H. MATSON\*\*  
Partner  
LeClair Ryan  
Richmond, Virginia



MICHAEL S. WATERS†  
President  
Partnership Marketing  
Midlothian, Virginia



LISA B. KERNI  
Senior Vice President-  
Investments  
Davenport & Company  
Richmond, Virginia



ROBERT M. WILY\*\*\*  
International Judicial  
Consultant  
Lindon, Utah

Executive Committee    † Audit Committee    \*\* Compensation Committee

## CORPORATE HEADQUARTERS

814 East Main Street  
Richmond, Virginia 23219  
(804) 344-8121 (804) 344-8129 FAX  
[www.applereitsix.com](http://www.applereitsix.com)

## INDEPENDENT AUDITORS

Ernst & Young LLP  
The Edgeworth Building  
2100 East Cary Street, Suite 201  
Richmond, Virginia 23223  
(804) 344-6000

## CORPORATE COUNSEL

McGuireWoods LLP  
One James Center, 901 East Cary Street  
Richmond, Virginia 23219  
(804) 775-1000

## DIVIDEND REINVESTMENT PLAN

Apple REIT Six, Inc. provides shareholders the opportunity to purchase additional shares of stock through the reinvestment of distributions. Information regarding this option can be obtained from your investment advisor.

## BENEFICIAL SHAREHOLDERS

Approximately 19,900 at  
December 31, 2011

## INVESTOR INFORMATION

For additional information about the Company, please contact: Kelly Clarke,  
Director of Investor Services  
(804) 727-6321 or [kclarke@applereit.com](mailto:kclarke@applereit.com)

## DISTRIBUTION TAX REPORTING ALLOCATION

Return of Capital:		
2011	20%	
2010	25%	
Ordinary Income:		
2011	80%	
2010	75%	

## Distribution Paid per Share:

2011	\$0.78
2010	\$0.79

## EXECUTIVE OFFICERS

Glade M. Knight  
Chief Executive Officer  
  
Justin G. Knight  
President  
  
David S. McKenney  
President of Capital Markets  
  
Kristian M. Gathright  
Executive Vice President &  
Chief Operating Officer  
  
Bryan F. Peery  
Executive Vice President &  
Chief Financial Officer  
  
David P. Buckley  
Executive Vice President &  
Chief Legal Counsel

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This annual report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance, or achievements of the company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include: the availability and terms of financing; changes in national, regional and local economies and business conditions; competitors within the hotel industry; the outcome of current and future litigation and regulatory proceedings or inquiries; the ability of the company to implement its operating strategy and to manage planned growth; and the ability to repay or refinance debt as it becomes due. Although the company believes that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate; therefore, there can be no assurance that such statements included in this annual report will prove to be accurate. In addition, the timing and level of distributions to shareholders are within the discretion of the company's board of directors. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by the company or any other person that the results or conditions described in such statements or the objectives and plans of the company will be achieved.



Apple REIT Six

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